

**Management of Non-Performing Assets: A comparative analysis of Public and Private Sector  
Banks of India**

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**Abstract**

The issue of Non-performing assets in banks is rising day by day. The source of income for banks is the interest on loans granted by them. They are assets for the banks and considered as non-performing if the amount of interest and/or principal is not received back. Bank plays a very important role in maintaining flow of money into any economy. Due to non-performing assets, the ability of the bank to pay the interest on deposits as well as liquidity affects. Sometimes banks may lose the ability to remain solvent in the market, too. This study's objective is to measure the management of Non-performing assets in public sector banks as well as private sector banks and to compare the same. The research is analytical in nature. Data is of secondary nature and collected from various reports of RBI as well as annual reports of the banks. Researcher has found that there is a comparatively higher level of NPA in Public sector banks than private sector banks.

**Introduction**

The bank plays a very important role in any economy. it accepts deposits from the general public and transfers the amount as borrowing to borrowers. The bank plays an important role in mobilisation of deposits. Other services of banks may include acceptance of general utility bills, providing ATM and Credit Cards, Locker facilities, etc. Banks grants loan to different sectors of society and for different purposes like house loan, educational loan, vehicle loan, business loan, etc. as per the requirement of the borrower. the bank collects interest from the borrower which acts as income and pays interest on deposits which acts as expense for the bank. The non performing asset for the bank may be defined as the credit facility on which the interest or installment amount is due for the specified period of time. This study compares the non performing assets of selected public and private sector banks to measure the efficiency of the banks. banks can not stop granting the loans as it would lead to underutilised facility and loss of potential income. On the other side, safety is also necessary so that the banks may get their amount back on time. the higher amount of non-performing assets may lead to bankruptcy of the bank and safety of deposits of the general public may arise. it is therefore considered as a sensitive issue for the bank.

**Concept of NPA**

Non-performing asset is a loan on which the amount of interest or installment is due for the specified period. it is an advance on which bank is unable to get the money back in the form of interest or in installment or both. Non-performing assets are termed as non performing because it doesn't generate income for the bank. the bank needs to disclose the assets like standard, sub-standard, doubtful and loss assets and respectively, the provision needs to be made on these assets at specified rates varying between 10 to 100 percent. The Gross Non-performing assets are total non-performing assets and Net Non-performing assets are ones on which the amount provisions is deducted from the Gross NPA.

**Review of Literature**

(Kadiwala & Prajapati, 2020) have conducted sector wise analysis of NPA in selected Public and Private Sector Banks of India. The objectives of the study were to compare the NPA of selected public sector banks and private sector banks and to check the growth of NPA. Researchers selected five public and private sector banks for the purpose of study from years 2015 to 2019. They found that public sector banks registered higher amounts of NPAs. In private sector banks, NPAs of Agriculture and allied activities are higher. ICICI bank spotted higher average NPAs among all the private sector Banks and Bank of India registered higher average among public sector banks.

(Sharma et al., 2020) have analysed in their research paper about profitability and non-performing assets of selected Indian Public and Private sector banks. the objectives were to analyse the relationship of Gross NPA and profitability, know the performance of selected public and private sector banks. for this purpose, they selected eight public sector banks and three private sector banks for the period of 13 years ending 2019. They used correlation, regression and t-test for the purpose of analysis. they found that the NPA of all the banks were continuously increasing and there was a better situation in private sector banks compared to public sector banks.

(Wadhwa & Ramaswamy, 2020) have in their research paper checked the impact of NPA on Profitability of Banks. The objectives of the study were to understand the concept and recovery of NPA, determine the impact of NPA on various financial Head, and to determine the impact of NPA on Profitability of Banks. researcher selected five public and private sector banks from the year 2015 to 2019 for the purpose of study. They found that NPA was negatively correlated with Net profits. they concluded that NPA is a critical factor affecting the financial sector of India. it affects the flow of credit which in turn affect the development and growth of the economy.

**Objectives of the study**

1. to compare the position of Non-performing assets in Public and Private Sector Banks
2. to check if there's any relation between Non-performing assets and other variables in Public and Private Sector banks
3. to provide suggestions thereof

**Research Methodology**

Type of Research	Analytical
Data collection criteria	Top five public and private sector banks listed on BSE as on 23/11/2020
Tools for the study	Accounting Ratios, Independent t-test, Correlation, etc.
Sources of Data	Various websites, Annual reports of selected Banks, etc.

### Analysis and Interpretation of Data

#### Gross NPA Ratio

Gross NPA Ratio shows the amount of Gross NPA as percent of Advances for a bank. it is calculated by dividing Gross Non-performing assets by Advances.

**Table 1: Gross NPA of selected Public and Private Sector Banks**

Banks	Year	2015-16	2016-17	2017-18	2018-19	2019-20
Public	SBI	6.50	6.90	10.91	7.53	6.15
	IDBI	10.98	21.25	27.95	27.47	27.53
	PNB	12.90	12.53	18.38	15.50	14.21
Private	HDFC	0.94	1.05	1.30	1.36	1.26
	KOTAK	2.36	2.59	2.22	2.14	2.25
	ICICI	5.21	7.89	8.84	6.70	5.53

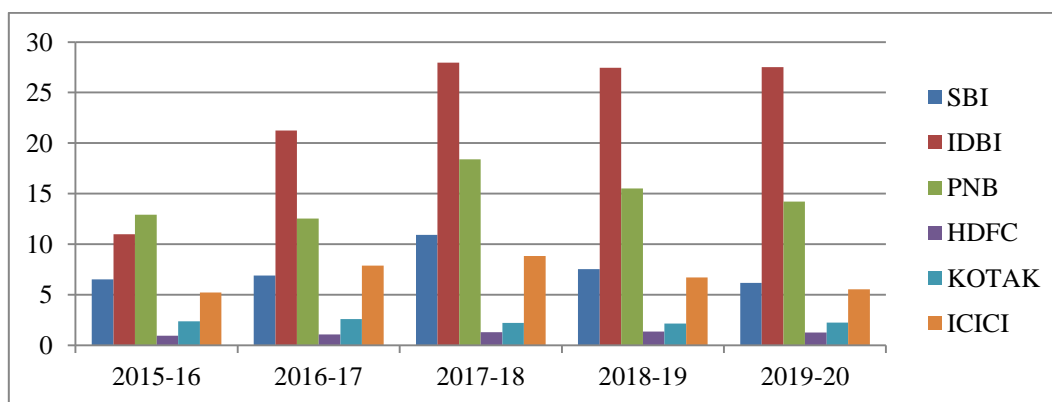


Figure 1: Gross NPA Ratio of Public and Private Sector Banks

The above chart shows Year wise gross NPA of Public and Private Sector Banks. The Highest Gross NPA ratio was in 2017-18 by IDBI at 27.95 percent. The lowest Gross NPA ratio was by HDFC Bank in 2015-16. The lowest average Gross NPA ratio was in HDFC Bank and highest average was by IDBI.

#### Testing of Hypothesis

$H_0$  = There is no significant difference in Gross NPA ratio of selected banks during study period

	Banks	mean	variance	F-Cal	F (p-value)	t-Cal	t (p-value)
GNPA	Public	15.11	60.48	8.53	0.00	5.49	0.00
	Private	3.44	7.08				

By the above analysis we can conclude that there is significant difference in Gross NPA ratio of selected Public and Private Sector Banks.

**Net NPA Ratio**

The Net NPA Ratio is found by dividing Net NPA with Net Advances. Net NPA is Gross NPA less provisions for NPA.

Table 2: Net NPA Ratio of Selected Public and Private Sector Banks.

Banks	Year	2015-16	2016-17	2017-18	2018-19	2019-20
Public	SBI	3.81	3.71	5.73	3.01	2.23
	IDBI	6.78	13.21	16.69	10.11	4.19
	PNB	8.61	7.81	11.24	6.56	5.78
Private	HDFC	0.28	0.33	0.40	0.39	0.36
	KOTAK	1.06	1.26	0.98	0.75	0.71
	ICICI	2.67	4.89	4.77	2.06	1.41

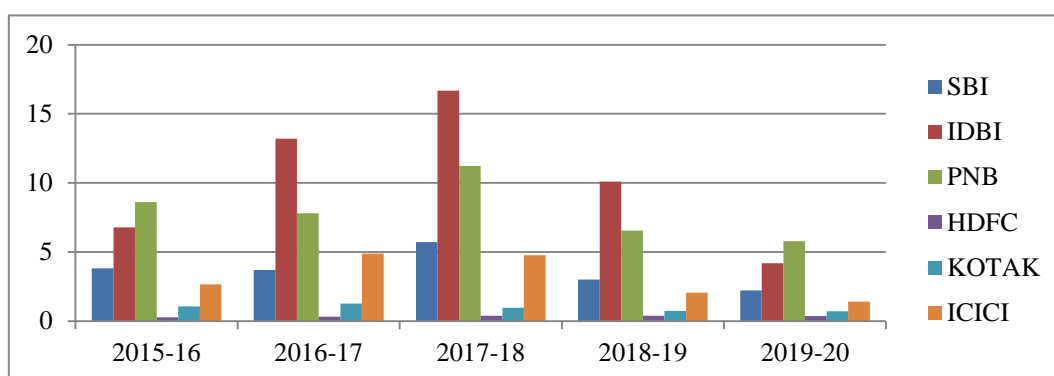


Figure 2: Net NPA Ratio of Public and Private Sector Banks

The above chart shows position of Net NPA of selected public and private sector Banks. The Highest Net NPA Ratio was in the IDBI in 2017-18 at 16.69 percent. The lowest Gross NPA Ratio was in Kotak bank at 0.71 percent. the lowest average net NPA ratio was in Kotak bank and the highest average Net NPA Ratio was in IDBI Bank.

**Testing of Hypothesis**

$H_0$  = There is no significant difference in Gross NPA ratio of selected banks during study period

	Banks	mean	variance	F-Cal	F (p-value)	t-Cal	t (p-value)
NNPA	Public	7.29	16.63	7.23	0.00	5.17	0.00
	Private	1.49	2.29				

By the above analysis we can conclude that there is significant difference in Net NPA ratio of selected Public and Private Sector Banks.

**Correlation**

To know the relationship between two variables, mostly correlation and regression analysis is conducted by the researchers. Here the researcher considered two variables Net NPA and Net profit to know whether changes in the level of Net NPA may lead to change in Net Profit.

Table 3: Correlation between Net NPA and Net Profit (Amount in crores)

Bank	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20	r
SBI	Net NPA	55807.02	58277.38	110854.70	65894.74	51871.30	-0.91
	Net Profit	9950.65	10484.10	-6547.45	862.23	14488.11	

<b>IDBI</b>	<b>Net NPA</b>	14643.39	25205.80	28665.14	14837.44	5439.49	0.47
	<b>Net Profit</b>	-3664.80	-5158.14	-8237.92	-15116.30	-12887.34	
<b>PNB</b>	<b>Net NPA</b>	35422.57	32702.11	48684.29	30037.66	27218.89	-0.64
	<b>Net Profit</b>	-3974.39	1324.80	-12282.82	-9975.49	336.20	
<b>HDFC</b>	<b>Net NPA</b>	1320.37	1843.99	2601.02	3214.52	3542.36	0.96
	<b>Net Profit</b>	12296.23	14549.66	17486.75	21078.14	26257.32	
<b>KOTAK</b>	<b>Net NPA</b>	1261.96	1718.07	1665.05	1544.37	1557.89	0.45
	<b>Net Profit</b>	2089.78	3411.50	4084.30	4865.33	5947.18	
<b>ICICI</b>	<b>Net NPA</b>	13296.75	25451.03	27886.27	13577.43	10113.86	0.16
	<b>Net Profit</b>	9726.29	9801.08	6777.42	3363.30	7930.81	

#### Findings and Conclusion:

- There is significant difference in gross NPA ratio of selected Public and Private sector banks. This indicates the Non-performing assets are lower in private sector banks.
- There is significant difference in Net NPA ratio of selected Public and Private sector banks. This indicates the Non-performing assets are lower in private sector banks.
- In SBI and PNB, there is negative correlation which indicates the Net NPA and Net profit are adversely related.
- In other banks, there is somewhat or more positive correlation found which indicates there is positive relation in Net profit and Net NPA.
- The Public Sector banks are required to take further steps like restructuring assets, various recovery channels, selling off assets, stricter rules and more verification for providing credit, analysing the ability of borrower before providing the loans, etc.

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