# A Study on Comparative Analysis of Non-Performing Assets in Selected Public and Private Sector Banks

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**Abstract:**

*Banking is the fastest growing economy in India. A major consequence faced by banks nowadays is Non – Performing Assets. A high level of NPA in banks will increase the credit values and affects the profit of banks. Thus, the banks will lose their investment for the long turn. The gradual transition towards international accounting standards, income recognition and asset classification, has made management of NPA as one of the toughest problem in the decade for the banks. NPAs affect the banks on its solvency, profitability and liquidity. The present study explores the management of Non- Performance Assets (NPAs) in Public and Private Sector Banks. The Indian banking sector has been facing major obstacle of increasing NPAs. The Raising in NPAs has a direct impact on profitability of banks Management of NPA is the major problem for both Public and Private sector Banks. This comparative study on management of NPA in Public and Private Sector Banks tries to analyze the performance of both Public and Private Sectors from the year FY 2013-14 to 2017-18. The result of the study shows the higher NPA in Public Sector Bank compared to the Private Sector Bank. This shows the performance inefficiency in the Public Sector Banks compared to the Private Sector Banks. Public Sector Banks has to improve their performance efficiency by adopting proper measures or otherwise it kills the overall working ability of Public Sector Banks.*

**Key words:** *Banks, NPA, Sub standard Assets, provision for NPAs*

## 1. INTRODUCTION:

Non-Performing Assets are meant by the uncovered funds which are lender by the banks to individuals or companies. The amount which is lender to individual or companies has to be written by 90 days or recover within 90 days of the cash received. In case, the amount which is not recovered within 90 days it is termed as Non-Performing Assets (NPA). The NPAs are sources in credit risk and the cash to be received are mentioned as "out of order" account. The term NPA has a tremendous and continuous impact on the banking sector and financial institutions of the country. In a developing country like India it has become an alarming factor which ultimately slows down the operations of the banks. There has been a sudden slowdown in the growth of India. This is one of the major reasons for erosion of profits in the Indian banking sector. The present quantum of nonperforming assets in commercial banks has reached alarming levels and if left unattended might lead to the collapse of the economy like in the developed countries. Mounting NPAs has a definite impact on the growth of the economy also. Gross NPAs reduced to 7.11% of the gross advances by the end of March 2019. Banks are required to classify the loans and advance assets into four categories:

1.Standard assets - Standard Assets are those assets which do not have problems attached to it. Such assets are considered to be performing assets as they have only the normal risk attached to the business.

2.Sub Standard assets- A sub-standard asset is one, which has been classified as NPA for a period not exceeding two years. With effect from 31 March 2001, a sub-standard asset is one, which has remained NPA for a period less than or equal to 12 months. In this type of asset, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full.

3. Doubtful assets - A doubtful asset is one, which has remained NPA for a period exceeding two years. With effect from 31 March 2001, an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard.

4. Loss assets- A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection team but the amount has not been written off completely.

Besides the classification, the amount NPAs is also determined considering amount of loan due and also the amount of loan due minus net of provisions as (i) Gross NPAs and (ii) Net NPAs.

**(1) 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 reflects the real NPAs and the quality of the loans made by banks. It consists of all **non-standard assets** like as sub-standard, doubtful, and loss assets. It is usually expressed as a percentage of gross advances made.

Gross NPA Ratio = Gross NPAs/Gross Advances*100

**(2) Net NPA:** Net NPAs are those NPAs in which the bank has made provision against NPAs and it is computed by deducting the amount of Provision from Gross NPAs. This is also expressed as a percentage of net advances.

Net NPA = (Gross NPA – Provision made against NPA)

Net NPA Ratio = Net NPAs/Net Advances*100

**2. RESEARCH METHODOLOGY:**

**2.1 Statement of Problem:**

The problem of non-performing assets is one of the key concerns for banks in India. NPAs indicate the degree of risk, quality of assets of bank and its profitability. A high level of NPAs suggests high prospect of a large number of credit defaults that destroy the profitability and net worth of banks and erodes the values of the assets. The present study tries to discuss the problem of NPA in select Public and Private Sector Banks, and to examine the initiatives taken by the Government of India and RBI to resolve the NPA problem.

**2.2 Review of Literature:**

Aninidita Chakraborty. Dr (2012) in her article has mentioned that NPA has been a threat to the Indian banking sector. NPA cannot be used for any unproductive purpose because they reflect the application of scarce capital and credit funds.NPA in the loan portfolio affects the profitability, liquidity and the solvency position of the banks. It also affects the psychology of bankers in respect to the credit delivery and expansion. Public sector banks of the country are bearing the maximum brunt of the NPAs.RBI has taken several initiatives like faster grievances redressal mechanism, better banking experience to the common man. NPA threatens the repayment capacity of the banks and erodes the confidence of the customers, employees kept on the banks. A total of 120 bank employees of both public sector and private sector banks were a part of the survey. Factor analysis and Z-test were adopted to analyze the data. The major findings were basic information of the customer has to be collected before disbursing the loan. When managers were target oriented they issue more loans without monitoring and this shows the incompetency of the bank employees. They also do not show much interest in the recovery of the loan from the customer.

Tanmaya Kumar Pradhan .Dr. (2015) in his article has mentioned that Indian banks have achieved a lot ever since nationalization. Despite this achievement, the growth of the banks is facing problems of inefficient organizational structure, declining profitability and high NPA. Primary data has been collected from 50 bank managers/senior officers of six leading banks and analyzed using percentage method. The major findings were diversion of funds, willful default and flaw in the system have contributed to the growth of the NPAs. Large borrowers and willful defaulters are the major contributors to this current position of NPA. Suggestions to tackle this problem include care during loan processing, strengthening of recovery efforts, monitoring of performing assets and out of court settlement.

Kavitha N. A & Muthu Meenakshi M (2016) analyzed NPA menace and showed that of NPA is comparatively high in public sector banks than in private sector banks. Though many steps have been taken by government and the RBI to reduce the NPAs, a lot needs to be done to curb this problem. To improve the efficiency and profitability, the NPAs have to be reduced. The government should also take necessary steps for faster settlements of pending cases. It should also reduce the mandatory lending to priority sector which is the major contributor to the NPA problem.

Monika Dahiya & Supreet Johal Bhatia (2016) felt that the NPA is a major problem and hurdle faced by the banking industry. To solve this problem, banker should constantly examine the borrower in order to make sure that the amount sanctioned is utilized properly for the purpose for which it was sanctioned and banker get both the formal and informal reports about the credit worthiness of the customer. If corrective actions are not taken on time, the NPAs will increase in the coming financial years. The study concludes that reduction of NPAs should be considered as national priority to make the Indian Banking system more sturdy, vibrant and geared to meet the challenges of globalization.Resham Chopra & Sudeshna Chatterjee (2017) made a comparative study of NPAs with respect to public and private sector Indian banks. In this study, performance of public sector banks is compared with that of private sector banks. The study finds that the public sector banks have more NPA level compared to private sector banks. It concludes that public sector banks must take care to avoid any account becoming NPA by taking proper preventive measures in an efficient manner and also financial institutions should be more pro-active to adopt a pragmatic and structured NPA management policy. However, prevention of NPA receives priority as it helps in the reduction of NPA in public sector banks.

Naveenan.R.et.al (2018) in their article has tried to assess the factors that contribute to NPA in banks. The factors that contribute to the growth of NPA can be divided into internal factors and external factors. Internal factors are faulty projects, willful defaulters, lack of professionalism and appraisal standards. External factors are natural calamities, recession, lack of Government policies, technical problems and so on. Secondary data has been collected from a phd thesis. Friedman test is adopted to analyze the data. The major findings of the study are unsecured loans, improper selection of borrowers, lack of monitoring of loans, lack of infrastructure, misutilization of funds are some of the factors contributing to the growth of NPA.

Ravikumar.et.al (2018) in their article has analyzed the causes for increase in NPAs in the country. The banking system of the country acts as a catalyst for the economy's growth. Banks provide financial assistance to a wide range of sectors such as steel, automobiles, health care and infrastructure. But if banks provide loans indiscriminately without taking into consideration the credibility of the borrower NPAs are born. If left unattended NPA can cause financial and economic degradation of the country. The data is collected from both primary and secondary sources from 429 respondents in Vijaywada. Statistical tools like arithmetic mean, percentages and Garrett Ranking technique has been used to analyze the data. The major findings are industrial sickness, change in Government policies, defective lending process, absence of regular industrial sickness lead to NPA.

**2.3 Scope of the Study**

Survey of existing literature indicates that, many researchers have worked on different dimensions of NPA. They focused on NPA ratios (gross and net NPA ratios) to assess the asset quality and effectiveness of credit risk management. A few studies were on the comparison of NPAs of Schedule Commercial Banks and with that of Public Sector Banks. In the above backdrop, an attempt is made here present a brief profile of banks selected for the present study. It may be noted here that the researcher has selected four scheduled commercial banks in India – two from public sector and two from private sector. The banks selected for the study are, Syndicate Bank and Canara Bank from public sector, and Karnataka Bank and Axis Bank from private sector.

**2.4 Objectives of the Study:**

1. To make an in-depth study to analyze to analyse the flow of NPA in public and private sector Banks.
2. To offer suggestions to address NPA problem of Indian Banking Sector.

**2.5 Research Methodology**

The study is mainly based on secondary data collected from the sources such as reports and websites of RBI and the Banks selected for the studies besides books, articles, reports, etc.Research Design used to carry out this study is descriptive research as the study deals with the statistical data and comparison between the selected public and private sector banks. Sample size of the study is four banks-two from Public Sector and another two from Private Sector. They are, Syndicate Bank and Canara Bank from public sector, and Karnataka Bank and Axis Bank from private sector. The study is done on the basis of data for a period of five years from 2013-14 to 2017-18.

**3. PROFILE OF SELECTED BANKS:**

**3.1 Syndicate Bank**

Syndicate Bank provides various banking products and services in India. The company primarily offers a range of deposit and loan products and services. The bank's deposit product line includes savings bank accounts, current accounts, and term deposit products. The company's loan portfolio comprises salary loans, consumer durable loans, vehicle loans, housing loans, mortgage loans, education loans, trader loans, personal loans, agricultural loans, other priority sector loans, and SME loan products, as well as loans targeted at NRIs, women, and senior citizens. In addition, the company offers various services, such as real time gross settlement system for transfer of funds; electronic funds transfer system; depository participant services; and clearing services. The company was established in the year 1925 and its office is located in Manipal.

**3.2 Canara Bank**

It is widely known for customer centricity, Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port town in Karnataka. The Bank has gone through the various phases of its growth trajectory over hundred years of its existence. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments. Eighties was characterized by business diversification for the Bank. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks. Canara Bank has several firsts to its credit.

**3.3 Karnataka Bank**

Karnataka Bank Limited, a leading 'A' Class Scheduled Commercial Bank in India, was incorporated on February 18th, 1924 at Mangaluru, a coastal town of Dakshina Kannada district in Karnataka State. The bank took shape in the aftermath of patriotic zeal that engulfed the nation during the freedom movement of 20th Century India. Over the years the Bank grew with the merger of Sringeri Sharada Bank Ltd., Chitradurga Bank Ltd. and Bank of Karnataka. With over 9 decades of experience at the forefront of providing professional banking services and quality customer service, we now have a national presence with a network of 848 branches spread across 22 states and 2 Union Territories. Today, it have emerged as a leading financial service institution in India.

**3.4 Axis Bank:**

It is India's third largest private sector bank, which is offering the sources and funs to the business operations in various sectors of the industrial units and the publics. The Bank has 59,600 employees with its 3,882 domestic branches and 12,660 ATMs across the country. The network of Axis Bank spreads across 2,211 cities and towns, enabling the Bank to reach out to a large cross-section of customers with an array of products and services.

**4. ANALYSIS AND OBSERVATIONS**

**4.1 Gross NPAs**

The amount of gross non-performing assets is a reflector of loan asset quality. Lower the amount and ratio of gross NPAs, higher is the asset quality and vice-versa. As already stated, gross NPAs represent the amount of loans and advances which has ceased to yield interest income to the lender-bankers. This also indicates that the amount of loan lent is not recovered as per the terms of credit. In this background, the details about the amount of gross NPAs and also the gross NPA Ratio are collected and presented below:

**Table 1: Gross Non Performing Assets of Selected Banks**

| Year | Gross NPAs ((Rs. millions) | | | |
|---|---|---|---|---|
| | Syndicate Bank | Canara Bank | Karnataka Bank | Axis Bank |
| 2013-14 | 46,111.40 | 77,107.70 | 8,359.30 | 31,464.00 |
| 2014-15 | 64,423.80 | 1,31,736.10 | 9,442.10 | 41,102.00 |
| 2015-16 | 1,38,321.60 | 3,18,523.40 | 11,804.00 | 60,875.00 |
| 2016-17 | 1,76,093.00 | 3,44,067.40 | 15,815.90 | 2,12,805.00 |
| 2017-18 | 2,57,586.00 | 4,76,985.30 | 23,760.70 | 3,42,486.00 |

*Source: Compiled from Annual Reports of banks*

It is obvious from the table 1 that, the amount of gross NPAs has registered a continuous increase year after year during the study period. Due to difference in the size of banks selected for the study, it is not appropriate to compare their performance based on the amount of gross NPAs. Therefore, the ratio of gross NPAs to amount of gross Loans and Advances is determined. The results are presented below:

**Table 2: Gross Non Performing Assets Ratio of Selected Banks**

| Year | Gross NPAs Ratio (%) | | | |
|---|---|---|---|---|
| | Syndicate Bank | Canara Bank | Karnataka Bank | Axis Bank |
| 2013-14 | 2.62 | 2.53 | 2.92 | 1.34 |
| 2014-15 | 3.13 | 3.93 | 2.95 | 1.43 |
| 2015-16 | 6.70 | 9.44 | 3.44 | 1.75 |
| 2016-17 | 8.50 | 9.66 | 4.21 | 5.42 |
| 2017-18 | 11.53 | 11.88 | 4.92 | 7.53 |

*Source: Calculated from Annual Reports of banks*

Table 2 discloses that the Gross NPA ratio increased from 2.53% at the end of 2013-14 to 11.88% by the end of 2017-18 in the case of Canara Bank with a growth rate of 369.57% (i.e., 3.7 times) during the study period. Similarly, in the case of another public sector bank viz., Syndicate Bank, the ratio of Gross NPA Ratio increased from 2.62% at the end of 2013-14 to 11.53% by the end of 2017-18 with a growth rate 340.08% (i.e., 3.40 times) during the study period. On the other hand, in the Axis Bank, the Gross NPA Ratio increased from 1.34% (lowest among four banks) at the end of 2013-14 to 7.53% by the end of 2017-18 with a growth rate of 461.94% (i.e., 4.62 times) and this is the highest growth rate among the banks selected for the study. In the case of Karnataka Bank, the Gross NPA Ratio increased from 2.92% (highest among four banks) as at 31 March 2014 to 4.92% (lowest among four banks) by the end of 2017-18 accounting with an increase by 68.49%. This is a commendable achievement – from highest Gross NPA Ratio (among the banks selected) at the beginning of the study period to lowest by the end of the study period.

**4.2 Net NPAs**

As already stated, Net Non-Performing Assets represent the difference between Gross Non-Performing Assets and the amount of Provisions made against the non-performing assets. That means, Net NPAs = (Gross NPAs – Provisions) and the Net NPA Ratio is computed by considering the net NPAs and the net Loans and Advances as i.e., Net NPA Ratio = Net NPAs/Net Advances*100

**Table 3: Net Non Performing Assets of Selected Banks**

| Year | Net NPAs ((Rs. millions) | | | |
|---|---|---|---|---|
| | Syndicate Bank | Canara Bank | Karnataka Bank | Axis Bank |
| 2013-14 | 27,210.00 | 60,408.30 | 530.40 | 10,246.00 |
| 2014-15 | 38,436.50 | 88,265.70 | 6,235.50 | 13,167.00 |
| 2015-16 | 90,148.70 | 2,17,386.10 | 7,954.70 | 25,221.00 |
| 2016-17 | 1,04,109.00 | 2,09,672.10 | 9,747.30 | 86,266.00 |
| 2017-18 | 1,32,394.60 | 2,85,932.30 | 14,005.10 | 1,65,917.00 |

*Source: Compiled from Annual Reports of banks*

It is evident from the above table 3 that, the amount of net non-performing assets has registered a continuous increase year after year except for one year in the case of Karnataka Bank. As the size differs from one bank to another selected for the present study, absolute amount of net NPAs lacks comparison. Therefore, net NPA Ratio is computed and presented below.

**Table 4: Net Non Performing Assets Ratio of Selected Banks**

| Year | Net NPAs ((Rs. millions) | | | |
|---|---|---|---|---|
| | Syndicate Bank | Canara Bank | Karnataka Bank | Axis Bank |
| 2013-14 | 1.56 | 2.01 | 1.91 | 0.44 |
| 2014-15 | 1.90 | 2.67 | 1.98 | 0.46 |
| 2015-16 | 4.48 | 6.44 | 2.35 | 0.73 |
| 2016-17 | 5.21 | 6.34 | 2.64 | 2.26 |
| 2017-18 | 6.28 | 7.48 | 2.96 | 3.77 |

*Source: Calculated from Annual Reports of banks*

It is obvious from the table 4 that, the net NPA Ratio has also registered a continuous increase year after year except for one year in the case of Canara Bank. In this Bank, the ratio is highest and it increased from 2.01% at the end of 2013-14 to 7.48% by the end of 2017-18. In the case of another public sector bank, Syndicate Bank, the ratio increased continuously and it increased from 1.56% as at 31 March 2014 to 6.28% by the end of 31 March 2018. As at the end of 2017-18, the ratio is high in both the public sector banks when compared to that in private sector banks. In the case of Axis Bank, the ratio was lowest at 0.44% at the end of the first year of the study period and it increased continuously to reach 3.77% by the end of the last year of the study period. On the other hand, in the case of Karnataka Bank, the Net NPA Ratio increased from 1.91% (second highest) at the end of 2013-14 to 2.96% by the end of 2017- 18 and this the lowest among the four banks selected for the study.

**5. RECOMMENDATIONS AND CONCLUSION**

Keeping in mind the findings of the study, the following suggestions are offered for the banks to reduce the burden of NPAs.

1. It was observed during study that the manpower provided to the branches for NPA management was not adequate in relation to the task assigned to them. There is a need to give adequate manpower to the branches for NPA management.

2. Write off is one of the ways of reducing NPAs and it is one of the ways of reducing the NPAs. However, it is necessary to ensure, before any account is written off, that all efforts for recovery have failed and there is no possibility of recovery in the account in normal course.

3. It is necessary for the banks to take up the credit appraisal system seriously and systematically to evaluate the loan applications as objectively as possible. This is necessary to ascertain whether the applicant is able to generate higher income than cost so he finds no difficulty in servicing the amount borrowed from the banks.

4. It is suggested to take adequate security while sanctioning loan. This is necessary to recover the amount due by disposing of the assets given by the loanee as security for the loan taken.

5. The recovery camps are organized by the revenue officials for recovery under government programmers in the district. However, the branches can arrange such camps in their area by giving wide publicity and inviting borrowers for such camps.

This study shows that extent of NPA is comparatively very high in Public Sector Banks when compared to Private Sector Banks. Of course, it is not possible to have zero NPAs. The managements of banks should speed up the recovery process. The government should also make more provisions for faster settlement. This is because of the reason that the problem of NPAs needs lot of serious efforts as otherwise NPAs will keep killing the Profitability of Banks which is not good for the growing Indian economy. It is therefore necessary to closely monitor the progress/performance and review the account periodically with assistance/guidance wherever necessary.

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