



A Comparative Study of Non- Performing Assets of Public and Private Sector Banks

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ABSTRACT

Non-performing assets are one of the major concerns for banks in India. NPA is an important parameters in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and erodes the value of the assets. NPAs affect the liquidity and profitability, in addition to posing threat on quality of assets and survival of banks. The Indian banking sector has been facing serious problems of raising Non-performing assets (NPAs). The NPAs growth has a direct impact on profitability of banks. It involves the necessity of provisions, which reduces the overall profits and shareholders' value. The problems of NPAs is not only affecting the banks but also the whole economy. In fact high level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by governments to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks can try competing with foreign banks to maintain international standard. An attempt is made in this paper that what is NPA? The factor contributing to NPAs, reason for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in selected Indian banks.

KEYWORDS: NPA, Gross NPA, Net NPA, Public sector bank, Private sector bank.

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I. INTRODUCTION

Banking in India originated in the last decade of the 18th century. The banking system in India comprises commercial and co-operative banks, of which the former accounts for more than 90 per cent of banking system's assets. Private and public sector banks occupy a major part of the banking in India. The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into pictures. The primary function of banks is to lend funds as loans to various such as Agriculture, industry, personal and housing etc. and to receive deposit. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On other hand lending always involves

much risk because there is no certainty of repayment. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets. Non-performing assets had been the single largest cause of irritation of the banking sector in India. NPAs nowadays these are one of the major concerns for banks in India.

II. REVIEW OF LITERATURE

Baskshi(1998) in his articles,"NPAs management in banks" discussed that there was a health code system which classify the assets in 1998 but the norm was not so effective. RBI introduced prudential norms to regulate NPAs which involves asset classification, recognition of income and provisioning norm. After introduction

of the norm NPAs are in decreasing mood both net NPAs and gross NPAs.

Balasubramaniam (2001) in non-performing assets and profitability of commercial banks in India: assessment and issues said that the level of NPAs is high with all banks currently and the banks would be expected to bring down their NPA. This can be achieved by good credit appraisal procedures, effective internal control systems along with their efforts to improve asset quality in their balance sheets. However, maintaining profitability is a challenge to commercial banks especially in a highly competitive era and opening up of banking business to NBFC and foreign banks in general.

Kaur(2006) in her thesis titled credit management and problem of NPAs in public sector banks highlighted the problem of non-performing assets in public sector banks.

Author suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

Bhatia(2007) in his research paper entitled, Non-performing assets of Indian public, private and foreign sector banks: An empirical assessment, explores an empirical approach to the analysis of Non-performing assets of public, private, and foreign sector banks in India. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. This aims to find the fundamental factors which impact NPAs of banks. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed.

Kaur and Singh(2011) in their study on Non-performing assets of public and private sector banks (a comparative study) studied that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. The

financial companies and institutions are nowadays facing a major problem of managing the Non-performing assets as these assets are proving to become a major setback for the growth of the economy

III. OBJECTIVE OF THE STUDY

1. To study NPA trend in last 5 years of private and public sector banks.
2. To make a comparative study of NPAs of public sector and private sector banks.

IV. RESEARCH METHODOLOGY

Research design used to carry out this study is descriptive research because it deals with statistical data and the main aim of the report is to describe the factors affecting the problem mentioned and making comparison between banks performance in context of NPA. The present study is an analytical study. For the purpose of this project non probability convenience method of sampling is used. The banks for the purpose of study are chosen as per convenience only. The sample consists of three public sector banks- Indian Bank, Canara Bank, Indian Overseas Bank and three private sector banks City Union Bank, Federal Bank, KarurVysya Bank. The study is done on the basis of data for the period of 5 years from the financial year 20011-2015 and secondary data is collected mainly from the sources available at internet like the RBI website, websites of the banks etc. Data is presented with the help of graphs, charts and tables etc.

In the data analysis some abbreviations have been used. The full form of these abbreviations is as follows:

1. GNPA –Gross NPA
2. % GNPA – Percentage of Gross NPA to Gross advances.
3. NNPA –Net NPA
4. %NNPA –Percentage of Net NPA to Net advances.

Table 1: Gross and Net NPA of public sector banks

Year	INDIAN BANK				CANARA BANK				INDIAN OVERSEAS BANK			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	740.31	0.93	397.04	0.53	3,089.21	1.45	2,347.3	1.11	3,089.59	2.72	1,328.42	1.19
2012	1,850.77	2.03	1,196.83	1.33	4,031.75	1.73	3,386.31	1.46	3,920.07	2.74	1,907.44	1.35
2013	3,565.47	3.33	2,384.30	2.26	6,260.16	2.57	5,278.07	2.18	6,607.96	4.02	4,027.21	2.50
2014	4,562.20	3.67	2,763.64	2.26	7,570.21	2.49	5,965.46	1.98	9,020.48	4.98	5,658.12	3.20
2015	5,670.44	4.40	3,146.96	2.50	13,039.96	3.89	8,740.09	2.65	14,922.45	8.34	9,813.33	5.68
AVG	3277.83	2.89	1977.76	1.78	6798.26	2.43	5143.46	1.87	7512.11	4.54	4546.90	2.79

Table 2: Gross and Net NPA of private sector banks

YEAR	CITY UNION BANK				FEDERAL BANK				KARUR VYSYA BANK			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	112.48	1.21	48.42	0.52	1,148.33	3.49	190.69	0.60	228.15	1.26	13.87	0.07
2012	123.54	1.01	54.04	0.44	1,300.83	3.35	199.00	0.53	320.99	1.33	78.78	0.33
2013	173.10	1.13	96.40	0.63	1,554.01	3.44	431.94	0.98	285.86	0.96	108.74	0.37
2014	293.06	1.81	197.29	1.23	1,087.41	2.46	321.56	0.74	279.18S	0.82	139.91	0.41
2015	335.82	1.86	233.79	1.30	1,057.74	2.04	373.27	0.73	677.78	1.85	280.97	0.78
AVG	207.6	1.404	125.98	0.823	1,229.67	2.95	303.29	0.72	358.39	1.24	124.45	0.392

Table 3: Gross and Net NPA of public and private sector banks

Year	Public sector Banks				Private Sector Banks			
	GNPA	%GNPA	NNPA	%NNPA	GNPA	%GNPA	NNPA	%NNPA
2011	6919.11	5.15	4072.79	2.83	1488.96	5.96	252.98	1.19
2012	9802.59	6.5	6490.58	4.14	1745.36	5.69	331.82	1.3
2013	16433.59	9.92	11689.58	6.94	2012.97	5.53	637.08	1.98
2014	21152.89	11.14	14387.22	7.44	1659.65	5.09	658.76	2.3
2015	33632.85	16.62	21,700.38	10.83	2071.33	5.75	888.03	2.81

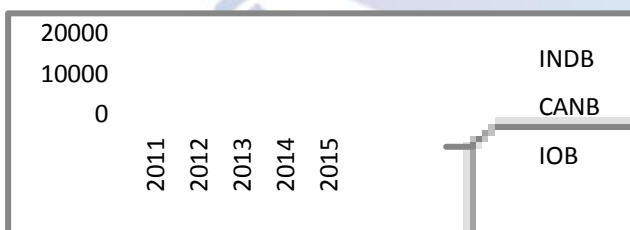
**Fig 1: GNPA OF Public sector banks.****Figure 2: GNPA of private Banks**

Figure 1 Shows that the average GNPA and NNPA of Indian overseas banks is highest among all three banks. The %GNPA and %NNPA is also highest in Indian overseas banks and lowest In Bank of Baroda.

Figure 2 Shows that the average GNPA and NNPA of Federal banks is highest among all three banks. The % GNPA and %NNPA is also highest in Federal banks and lowest in City Union banks. The trend on GNPA is almost constantly high in Federal banks. The level of GNPA in City Union banks is almost same in 5 years. And in case of

Karur Vysya banks it is highest in 2015 and lowest in 2011.



Figure 3: Gross NPA of Public and Private sector Banks

Figure 3 Shows that the level of Gross NPA in Public sector Banks is comparatively very high than Private Banks. The trend is increasing in Public banks for all five year but in Private sector banks it is increasing till 2011 but after that it is almost constant.

Figure 4 Showing that the level of Net NPA in public Banks is also comparatively very high than in Private Banks. The trend is increasing in Public banks for all seven years but in Private sector banks it is increasing till 2011 but after that it is almost constant.

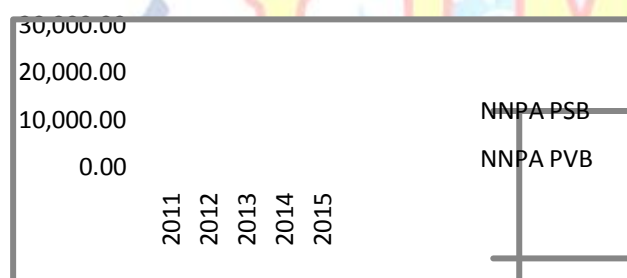


Figure 4: Net NPA of Public and Private sector Banks

V. CONCLUSION

The NPAs have always created a big problem for the banks in India. It is just not problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lender. This study shows that extent of NPA is comparatively very high in public sector banks as compared to private banks. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem. The extent of NPAs has comparatively higher in Public sector banks. To improve the efficiency and profitability, the NPAs have to be scheduled, various steps have been taken by governments to reduce the NPAs. The governments should also make more provisions for faster settlements of pending cases

and also it should reduce the mandatory lending to priority sector as the major problem creating area. The problem of NPAs needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

A conclusion section is not required. Although a conclusion may review the main points of the paper, do not replicate the abstract as the conclusion. A conclusion might elaborate on the importance of the work or suggest applications and extensions.

APPENDIX

Appendixes, if needed, appear before the acknowledgment.

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