



COMPARATIVE STUDY OF NPA'S OF SELECTED PRIVATE AND PUBLIC BANKS (REPORT ON SELECTED BANKS FROM 2016 TO 2020)

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Abstract

Non-Performing assets have become a significant issue for the banking and financial sector in India. The asset quality of the bank has become crucial for the development of the banking sector. The motive of the study is to compare the NPA of selected public and private banks of India as well as to study the relationship between NPA and the profitability of the selected banks. This study is based on secondary data, which are collected from annual reports and official websites of the banks. The study covers the period of 2016 to now in which two government-owned banks and three private banks are taken for the sample of the study. It is found that the NPA of private sector banks is relatively low NPAs than the public banks. In recent times the NPA of private sector banks is raising due to several factors like Covid-19 and an economic crisis the NPA of public banks seems fine and not much affected.

Keywords: *Non-Performing assets, Public banks, Private Banks, Return on assets, Net Profit.*

1. Introduction

Banking sector plays an indispensable role in economic development of a country through mobilization of savings and deployment of funds to the productive sectors. Bank lending is very crucial for it makes it possible, the financing of agricultural, industrial and commercial activities of the country. It is an established fact that a fragile banking system can, not only hamper the development of a particular economy but also it can deepen the real economic crisis and impose heavy social costs. So the health of the banking system should be one of the primary concerns of the government of each country. Currently the Indian banking sector is not in a good health. The symptoms of the disease are vastly apparent viz. rising NPAs, high labor costs, competition from mutual funds, bureaucratic hurdle and red tapism to name a few. The existing weak banks only compound the problem. Most of these symptoms have been present in the Indian banking system since independence but it is only in the post reform era that they have become more ostensible.

1.1 Indian Banking Sector

After the Nationalization of banking sector, the Indian banking and financial system has made commendable progress in extending in geographical spread and financial reach. The banking industry in India is also undergoing rapid changes with the introduction of financial sector reforms and follow-up actions by Reserve Bank of India based on the Narasimham Committee recommendations. In 1991 the government of India (GOI) established a nine-member committee on financial systems, under the chairmanship of Mr.N.Narsimham to evaluate the systemic banking problems. The Narsimham committee report published towards the end of 1991, containing far-reaching recommendations for the banking sector. This report formed the basis for the sector's reforms, which were undertaken in parallel with the overall economic reforms of the 1990's.

1.2 Non-Performing Assets of the Banking Sector

A Non-Performing Asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.



1.3 Reasons for Mounting NPA's in the Banking Sector:

The banking sector has been facing the serious problems of the rising NPAs. But the problem of NPAs is more in public sector banks when compared to private sector banks and foreign banks. The NPAs in PSB are growing due to external as well as internal factors. The implementation of law is weak and faulty to examine the intuition of the borrower.

- Financial institutions are unable to announce defaulters as “willful defaulters”.
- Change in government policies due to new government which leads the banking sector to cope with the changing principles and policies in order to deal with growing NPAs.
- Lack of effective analysis of tangible assets as a security to secure its interest before sanctioning a loan by the bankers.
- The natural calamities like flood, heavy rainfall, drought causes huge destruction of crops so that especially the farmers could not repay the loan.
- Appropriate technology and information system is not implemented in the banks which create hindrance to take decision on real time basis.

1.4 Classification of loans in Indian banks is classified on the following basis:

The assets (loans) are classified into;

- (i) Standard Assets
- (ii) Sub-standard Assets
- (iii) Doubtful Assets
- (iv) Loss Assets

Standard Assets:

Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset should not be an NPA.

Sub-standard Assets:

A substandard asset is asset of NPA for a period less than or equal to 12 months.

Doubtful ASSETS:

A Doubtful asset is asset of NPA for more than 12 months.

Loss Assets:

A loss asset is type of asset of NPA which losses has been identified by the bank authority, auditors or the RBI but the loss amount has not been written off fully.

2. Review of Literature

- **Mr. Abid Husain, G. Kadiw and Dr. Rasikbhai, I. Prajapati (FEB 2020)** There is difference among the NPAs in both the public and private sector banks. This study reveals that types of banks and sector-wise NPAs do not have combine effect over total NPAs of the banks. Study result shows that in public sector banks category of industry of both the priority and non-priority spotted higher NPAs. Average NPAs for the study period of all the selected private banks are less than 5% and average NPAs for the study period of major all the selected public sector banks are more than 5%. It is found in the present study that asset quality and efficiency of debt coverage of private sector banks are better than public sector banks. In comparison to private sector banks, public sector banks registered higher NPAs.
- **Sunil Kapadia and Venu Madhav (2019)** narrated some important factors leading to rise in NPA level of scheduled commercial banks. The factors are relaxed and loose credit management and monitoring, rerouting of funds for modernization, diversification and expansion time and cost overrun during the project implementation stage, the unforeseen and abrupt crashing of



capital markets there by inability to raise funds, failure to identify and acknowledge early warning signals shown by standard assets.

- **N.A Kavitha, M. Muthu Meenakshi (MAR 2016)** have investigated that the extent of NPA was relatively very high in public sector banks. Although various steps have been taken by Govt. to reduce the NPAs but still a lot of needs to be done to curb this problem. To improve the efficiency and profitability, the NPAs have to be scheduled; various steps have been taken by Govt. to reduce the NPAs
- **K. Prasanath Kiran & T. Mary Jones (2016)** Their study examined the NPA of top 5 public sector banks in India from the year 2005 to 2014. It is cleared from the study that public sector banks NPAs are going on increasing at increasing rate. They took hypothesis for this comparison. They also used correlation and regression analysis for knowing the result of NPAs in selected public sector banks in India.

3. Statement of the Problem

According to the changing era the definition of NPA is also changing. Hence NPA in India increasing gradually at increasing rate. It is considered as one of the key indicators which evaluate the financial performance of every bank. So, the study of dynamic changes of NPA in banking sector in India is very important. It is better understood by doing the comparative analysis of public sector banks and private sector banks in India. So here I have chosen 2 public sector banks i.e., UCO Bank and PNB and 2 private sector banks i.e., Kotak Mahindra Bank and HDFC Bank for the study purpose for these banks are most prominent in their specified area and best in their category. Present study has focused on different components like gross NPA %, Net NPA %, return on assets %, Net NPA, Net Profit, etc. for the study of both public and private sector banks.

4. Scope of the Study

The scope of the study is comparative analysis of 2 public sector banks and 2 private sector banks in India for the duration of 2016 to 2020.

5. Objectives of the Study

- To know the quantum of NPA's in selected Public and Private sector banks.
- To study the relationship between NPA with the key parameters of selected banks.
- To find out the impact of NPA on Net profit and Return on Assets (ROA) of the selected Banks.

6. Research Methodology Adopted

6.1. Sources of Data

The present study based on secondary data. These data have been collected from different Sources such as:

- Annual reports of UCO Bank, Kotak Mahindra Bank, RBI, PNB, HDFC Bank
- Press Release Report of UCO Bank, Kotak Mahindra Bank, PNB, HDFC Bank
- And related subject matter and related website of public and private sector banks in India.

6.2. Sample Design

The public and private sector bank for the study were selected based on convenience sampling method. For these 2 public sectors and 2 private sector banks in India were taken for the study on the basis of market capitalization. The study period is from 2016 to 2020.



The following are the selected sample banks

- A. Public sector bank: UCO Bank, Punjab National Bank (PNB)
- B. Private sector bank: Kotak Mahindra Bank, HDFC Bank

6.3. Statistical Tools Used

- Mean has been calculated to know the average performance and to know the stability in the performance of the banks to find out the relationship between NPA and another key parameter of bank.
- Correlation has also used to check the relationship between Net NPA and Net Profit and Return on Assets (ROA) of the selected public and private sector banks in India.

7. Data Analysis And Interpretation

7.1. Table-1

| %Gross NPA of selected public and private sector banks in India from 2016 to 2020 YEAR | | | | |
|----------------------------------------------------------------------------------------|-----------------------------------|---------------|------------------------------------|---------------------|
| YEAR | PUBLIC SECTOR BANK Gross NPA % | | PRIVATE SECTOR BANK Gross NPA % | |
| | PNB | UCO Bank | HDFC BANK | Kotak Mahindra Bank |
| 2015-16 | 12.90 | 15.43 | 1.00 | 2.1 |
| 2016-17 | 12.53 | 17.12 | 0.25 | 2.2 |
| 2017-18 | 18.38 | 24.64 | 1.04 | 2 |
| 2018-19 | 15.50 | 25.00 | 1.28 | 1.9 |
| 2019-20 | 14.21 | 16.77 | 1.35 | 2.2 |
| MEAN | 14.7 | 19.792 | 0.984 | 2.08 |

Interpretation

A very high gross NPA ratio means the bank’s asset quality is in very poor shape. **Table-1** reveals the % of Gross NPA of selected public sector and private sector banks in India Bank has highest Mean ratio of 19.792%, followed by PNB with 14.7%. HDFC has lowest Mean ratio of 0. 984%. Kotak Mahindra Bank 2.08% Mean ratio. This shows that there is a consistency in Gross NPA to gross advances ratio or % of Gross NPA ratio.

7.2. Relationship between Net profit and Net NPA of Public Sector Banks

Table- 2

Net Profit and Net NPA of selected public sector banks in India from 2016 to 2020

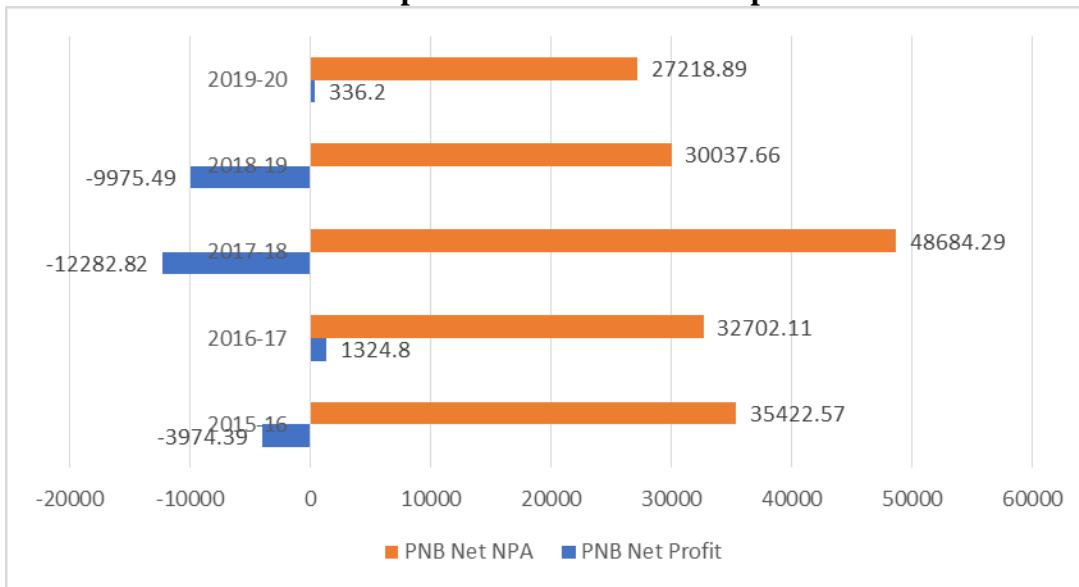
| YEAR | PNB | | UCO BANK | |
|-------------|------------------------|---------------------|------------------------|---------------------|
| | Net Profit (in Cr.) | Net NPA (in Cr.) | Net Profit (in Cr.) | Net NPA (in Cr.) |
| 2015-16 | -3974.39 | 35422.57 | -2799 | 11443.59 |
| 2016-17 | 1324.80 | 32702.11 | -1851 | 10703.39 |
| 2017-18 | -12,282.82 | 48684.29 | -4436 | 14082.07 |
| 2018-19 | -9,975.49 | 30037.66 | -4321 | 9649.92 |
| 2019-20 | 336.20 | 27218.89 | -2437 | 5510.66 |
| MEAN | -4914.34 | 34,813.104 | -3168.8 | 10,277.926 |



Interpretation

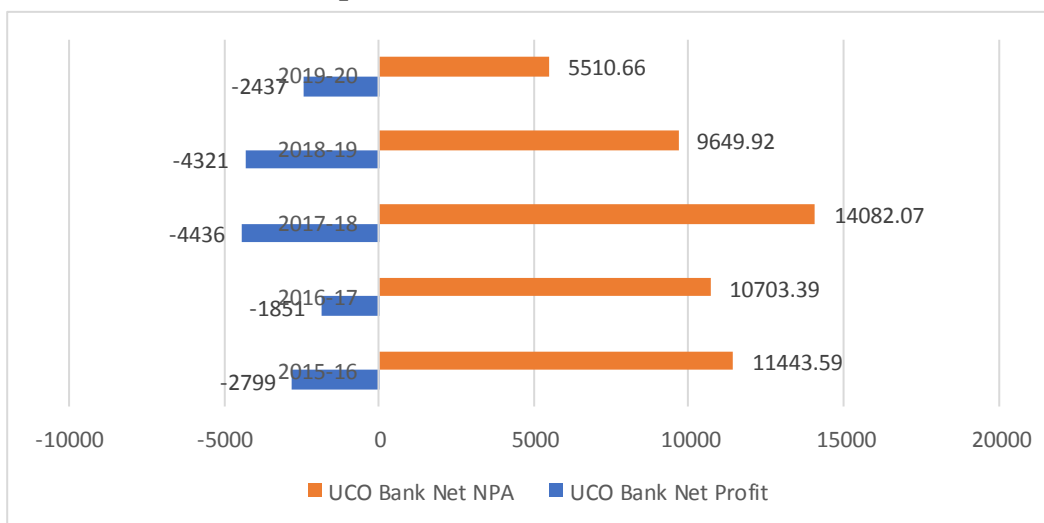
Table 2 shows that when NPA increases at increasing rate, then there will be a downfall in the Net profit of the banks. It is cleared from the above table that the NPA of PNB increases ₹35,422.57Cr to ₹48,684.29 Cr from 2016 to i.e., 37.43%. But as compare to 2020-year NPA is decreased at 44.09%. In UCO Bank NPA increased from the year 2016 to 2018 from ₹11,443.59 Cr to ₹14,082.07 Cr. Average Mean of Net NPA is high of PNB as compare to the UCO bank.

A. Relationship of Net Profit And Net Npa Of Pnb



Interpretation: The above diagram indicates the relationship between Net NPA and Net Profit of the PNB. According to the directions it shows that there is an inverse relationship between Net NPA and Net Profit of the bank. When NPA of the bank increases, then the profit of the bank going to decrease. In the year 2018-19, 2017-18 and 2015-16 the Net Profit is showing negative figures. In the year 2016-17 it has positive figure of Net Profit i.e., ₹1324.8Cr.

B. Relationship of Net NPA and Net Profit of UCO Bank





Interpretation

The above diagram indicates the relationship between Net NPA and Net Profit of the UCO Bank. According to the directions it shows that there is an inverse relationship between Net NPA and Net Profit of the bank. When NPA of the bank increases, then the profit of the bank going to decrease. In all the five year the Net Profit is showing negative figures. In the year 2017-18 it has highest NPA i.e., ₹14082.07Cr.

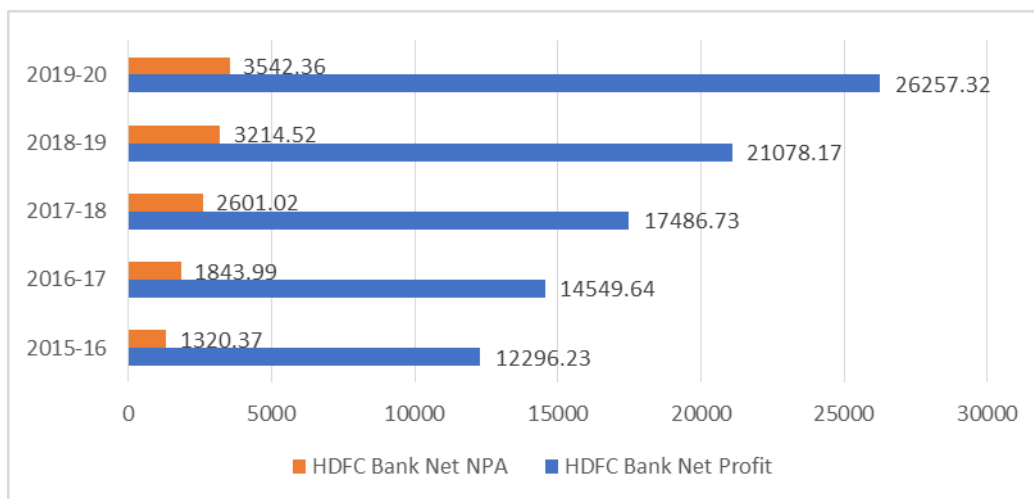
7.3. Relationship between Net profit and Net NPA of Private Sector Banks

| Table-3 | | | | |
|------------------------------------------------------------------------------------|---------------------|------------------|---------------------|------------------|
| Net Profit and Net NPA of Selected Private Sector banks in India from 2016 to 2020 | | | | |
| YEAR | HDFC Bank | | Kotak Mahindra Bank | |
| | Net Profit (in Cr.) | Net NPA (in Cr.) | Net Profit (in Cr.) | Net NPA (in Cr.) |
| 2015-16 | 12296.23 | 1320.37 | 3459 | 1353 |
| 2016-17 | 14549.64 | 1843.99 | 4940 | 1814 |
| 2017-18 | 17486.73 | 2601.02 | 6201 | 1769 |
| 2018-19 | 21078.17 | 3214.52 | 7204 | 1696 |
| 2019-20 | 26257.32 | 3542.36 | 8593 | 1745 |
| MEAN | 18333.62 | 2504.452 | 6079.4 | 1675.4 |

Interpretation

Table:3 shows that the Net Profit (in Cr.) and Net NPA (in Cr.) of 2 private sector banks. Such as KOTAK MAHINDRA BANK and HDFC BANK. The data of Kotak Mahindra Bank indicates that the net profit and Net NPA are fluctuate over the 5years.Initially increased then decreased then again increased then again decreased and so on. But in HDFC bank the Net Profit and Net NPA are increases at increasing rate over the 5 years. The Mean value of Net profit is highest in HDFC Bank with ₹18333.62 Cr. and Mean value of NPA is also highest in HDFC bank i.e., ₹2504.452 Cr. As compare to Kotak Mahindra Bank i.e., 1675.4

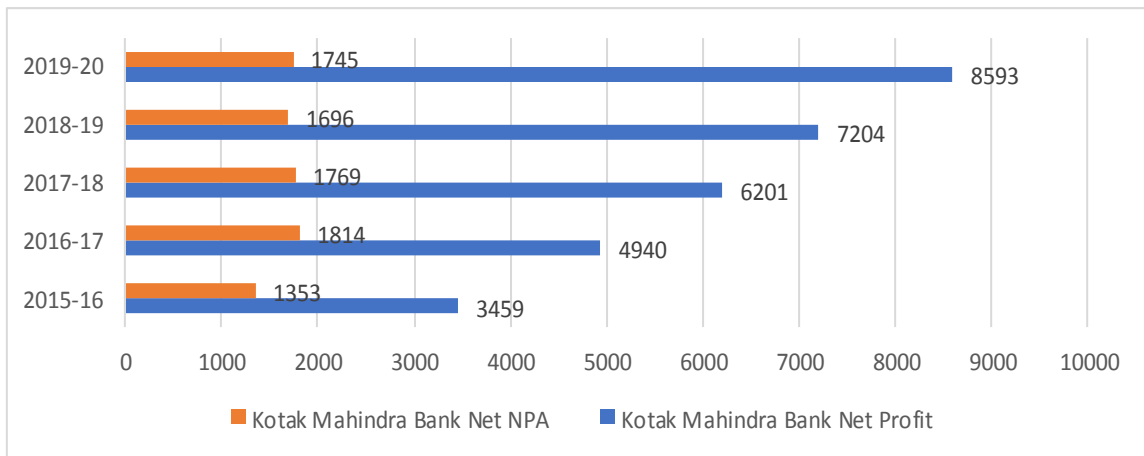
A. Relationship of net NPA and Net profit of HDFC Bank





Interpretation: The above chart shows the relationship between Net NPA and Net Profit of the HDFC Bank. It is clearly show that Net Profit and Net NPA increased over the 5 years at increasing rate. In the year 2019-20 HDFC has highest Net profit and Net NPA of ₹26257.32 Cr. And ₹3542.36 Cr. respectively. It has lowest Net Profit and Net NPA in the year 2015-16 with value of ₹12296.23 Cr. and ₹1320.37 Cr. respectively. Thus, it is cleared from the chart that there is a direct relationship between Net NPA and Net Profit in HDFC bank.

B. Relationship between Net NPA and Net profit of Kotak Mahindra Bank



Interpretation: The above chart shows the relationship between Net NPA and Net Profit of the Kotak Mahindra Bank. It is clearly show that Net Profit and Net NPA increased over the 5 years at increasing rate. In the year 2019-20 HDFC has highest Net profit of ₹8593 Cr. And highest NPA in 2016-17 i.e., ₹1814 Cr. It has lowest Net Profit and Net NPA in the year 2015-16 with value of ₹3459 Cr. and ₹1353 Cr. respectively.

7.4. Correlation between Return on Assets and Net NPAs of selected banks:

| Table 4 | | | | | | | | |
|-------------------------------------------------------------------------------------------------|--------------------|--------------|------------------|-------------|---------------------|--------------|---------------------|-------------|
| Return on Assets (ROA) and Net NPA % of selected public sector banks in India from 2016 to 2020 | | | | | | | | |
| YEAR | Public Sector Bank | | | | Private Sector Bank | | | |
| | PNB | | UCO Bank | | HDFC Bank | | Kotak Mahindra Bank | |
| | ROA % | Net NPA % | ROA % | Net NPA % | ROA % | Net NPA % | ROA % | Net NPA % |
| 2015-16 | -0.59 | 9.00 | -1.25 | 9.09 | 1.93 | 0.40 | 1.19 | 0.9 |
| 2016-17 | 0.18 | 8.00 | -0.75 | 8.94 | 0.33 | 1.88 | 1.73 | 1.1 |
| 2017-18 | -1.60 | 11.00 | -1.88 | 13.10 | 1.93 | 0.40 | 1.73 | 0.9 |
| 2018-19 | -1.28 | 6.56 | -1.84 | 9.72 | 1.90 | 0.39 | 1.69 | 0.7 |
| 2019-20 | 0.04 | 5.78 | -0.96 | 5.45 | 2.01 | 0.36 | 1.87 | 0.7 |
| MEAN | -0.65 | 8.068 | -1.336 | 9.26 | 1.62 | 0.686 | 1.642 | 0.86 |
| CORRELATION | -0.52749 | | -0.316461 | | -0.99928 | | -0.214605 | |



Interpretation

The table-4 shows the data of Return on Assets (ROA)% and Net NPA % of selected public sector and private sector banks in India from the year 2016 to 2020. In PNB, initially the NPA% is increased from the year 2015 to 2017 and then started to decrease. The ROA% of PNB show in negative figures in the year 2015, 2016 and 2019 and the rest of year it shown positive figures. The ROA% of UCO Bank are negative in all the five years and Net NPA% are fluctuated over the years. Mean value of ROA % is lowest in UCO BANK as -1.336%. HDFC and Kotak Bank has more or less similar ROA% mean value i.e., 1.62 and 1.642 respectively over the year. The mean value of Net NPA % is more in UCO Bank i.e., 9.26 and all the banks shows negative correlation between ROA% and Net NPA%.

8.Findings

Comparison among public bank and private bank:

- **Gross NPA%:** It is one of the key indicators of banking sector. According to the Comparative analysis Gross NPA% is higher in public sector bank i.e., UCO Bank of 19.792% and lower in private sector bank i.e., HDFC Bank with 0.984% mean value.
- **Net Profit (in Cr):** It shows the profitability of the bank. The mean value of Net profit is highest in HDFC bank i.e., ₹18333.62 Cr. And lowest in PNB which shows negative figures i.e., ₹-4914.34 Cr.
- **Net NPA Amount (in Cr.):** It is another key parameter of financial position of bank. As per the comparison Public sector bank i.e., PNB having higher Mean NPA value of ₹34813.104 Cr. And Kotak Mahindra Bank the private sector bank having lower Mean NPA amount of ₹1675.40 Cr.
- **Return on Assets (ROA)%:** According to the comparison ROA% is more or less similar in HDFC Bank and Kotak Mahindra Bank which are 1.62% and 1.642% respectively mean ROA%. And less in UCO Bank which show negative mean ROA of -1.336%. NPA % is more in Public Sector bank i.e., PNB which has mean value of NPA % is 8.068 and less in Private sector bank i.e., HDFC Bank with 0.682% of mean Net NPA%
- **Correlation between Net NPA and Net Profit:** According to the point of correlation between Net NPA and Net Profit, all the banks show negative correlation except HDFC bank which shown positive correlation 0.9658. Negative correlation indicates that when NPA will rise then Net profit will be decreased.
- **Correlation between Net NPA %and Return on Assets (ROA)%:** As per the analysis NPA has negative impact on ROA. There is a negative correlation shown in all the selected public and private sector banks. It means increase in NPA leads to decrease in ROA of the banks.

Conclusion

Here I conclude that NPA is the one of the key parameters which indicates the financial stress of any banks in India. NPA is one of the biggest issues in banking sector. It is difficult to completely reduce the NPA from banks but we should try to eliminate some major portion of NPA from banks. After the comparison It is found that NPA is more in public sector banks i.e., Punjab National Bank (PNB) in India and it has negatively affected the profitability of the banks, because PNB has negative correlation between Net NPA and Net Profit. The ROA% is more in HDFC Bank and it has also low NPA%. According to this comparison between selected public and private sector banks in India, it is cleared that HDFC bank is good for NPA because it shows low Gross NPA%, low Net NPA% and higher ROA% over the last 5 years study. Thus, it is one of the major issues of public sector banks as well as government. Now the Reserve Bank of India (RBI) has been increased to take measures and actions against NPA in banks. There is need to focus on NPA of every public sector bank in India. To eliminate NPA the bank should improve their credit structure and also repayment structure. It also focuses on the



default risk minimization mechanism. Bank should follow all the credit policy of the government and take timely action against NPA. The bank also improved its management system regarding NPA.

Limitation and Future Scope of Study

This research is based on secondary data. I just made the conclusion on the basis of analysing data collected from last five years from the year 2016-2020. The statistical concept used is limited. The researcher can further do the research on this topic by taking past 10 years data and using other different statistical tools and other different key parameters like CASA%, ROCE%, Cost of Income %, etc and their impact on NPAs of the bank.

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