

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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**A COMPARATIVE STUDY OF DIFFERENT BANKING SECTOR ON THE BASIS OF NPAs**

**NEETU GUPTA  
RESEARCH SCHOLAR  
MEWAR UNIVERSITY  
GANGRAR**

**ABSTRACT**

Banking institutions is an important segment of the tertiary sector and act as backbone of the economic development. But, currently Indian banking system is suffered from a disease i.e. Non-Performing Assets (NPAs). It is like a double edged sword for banks because at the one side it reduces the profitability & on the other side banks have to create provisions against these assets which affect the shareholder's value. It is a virus which affects the efficiency, solvency & stability of the banking system. So, it is necessary to trim down the NPAs. This paper present the concept of NPA, its causes, impact & its trend. This paper analyses the comparison of classification of loan assets of public, private & foreign banks. This paper is an attempt to analyze how efficiently public, private & foreign sector banks managed their NPAs. This study concluded that that private sector banks are performing their job more efficiently than other banks.

**KEYWORDS**

Foreign sector banks, Non-performing assets, Public Sector Banks, Private sector Banks, Ratio analysis, Trend analysis.

**INTRODUCTION**

The banking system of India comprises of commercial & cooperative banks. Former, accounts more than 90% of the banking system's assets. Besides foreign & Indian private banks, the commercial banks comprise Nationalized banks, the State Banks of India & its associate banks, which constitute Public sector banks. After the economic liberalization in 1991, the objectives of banks have undergone a change. In recent times banks have become very cautious in extending loans because of mounting NPAs which becomes a major concerns for Indian banks.

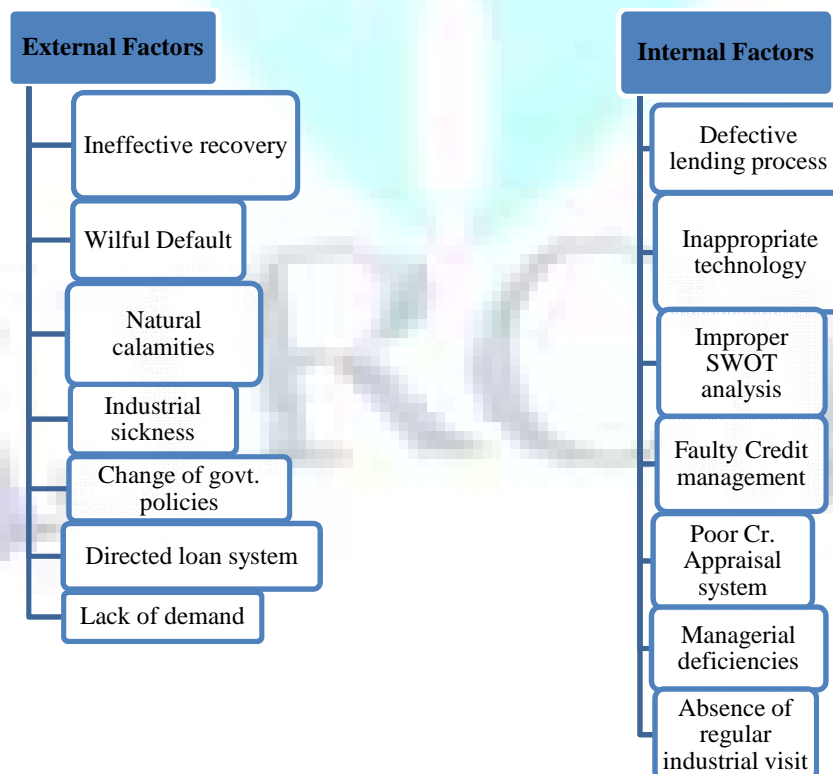
**WHAT IS NPAs?**

NPAs are those assets which do not generate any kind of income for a specified period of time to banks. w.e.f. 31.03.04, RBI has been adopted the international best practices & to ensure the greater transparency "the 90 days overdue" norms for the identification of NPAs.

**IMPACT OF NPAs**

- Reduce the earning capacity of assets and badly affect the ROI.
- The cost of capital will go up.
- The assets and liability mismatch will widen.
- Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- The economic value additions (EVA) by banks gets upset because EVA is equal to the net operating profit minus cost of capital.
- NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
- NPAs affect the risk facing ability of banks.

**FACTORS FOR RISE IN NPAs**





**CLASSIFICATION OF ASSETS**

- **Standard Assets:** Standard assets generate continuous income and repayments as and when they fall due. So a standard asset is a performing asset. Such assets carry a normal risk and are not NPAs in the real sense. Hence, no special provisions are required for Standard Assets.
- **Sub Standard Assets:** A sub-standard asset is one, which is considered as non-performing for a period of 12 months.
- **Doubtful Assets:** All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful assets.
- **Loss Assets:** A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

**REVIEW OF LITERATURE**

- Satpal (2014) in his paper, he did comparative analysis of NPA in Public & private sector banks. Mention the impact, trends & magnitude of NPAs of selected banks
- S.R.Prasad.(2015) explain the NPA management of HDFC bank through Various ratios & Time series projection method.
- Nancy Arora and Nikita Oswal (2014) analyze the comparison of loan assets of Public sector & private sector banks. The study concluded that NPAs still threat for the banks & public sector banks have higher level of NPAs as compare to private sector banks.
- Neha Rani & Dr. Dinesh Gaba (2014) This study aims to compare the performance of private sector, public sector, foreign banks and scheduled commercial banks on the basis of NPA.For this advances are classified into different types and then comparison is made .From this study it is concluded that private sector banks are performing their job more efficiently than other banks.
- Dr. Krishna Murari (2014) This paper made an attempt to analyze how efficiently public and private sector banks managed their NPAs. Secondary data has been collected for the selected categories of the banks from the RBI publications. The data has been analyzed using percentage and ratio method, and selected statistical tools such as least square method for trend projection and one-way ANOVA. The results reveal that public sector banks have witnessed a continuous increasing trend in gross and net NPAs in comparison to private sector banks and there is statistical significant difference in the mean of gross and net NPA of public and private category of Indian banks.
- Zahoor et.al (2013) “concluded that level of NPA both gross and net shares an average upward trend for all nationalized banks but growth rate is different. There is significant difference between gross and net NPA of nationalized banks.”
- Suresh patidar (2012) “reported that priority sector lending has significant impact on total NPA of public sector bank rather than private sector banks and there is significant difference between NPA of nationalized banks, SBI group, private sector banks.”
- G.V Bhavani Parsad and D. Veena (2011) conducted a study on "NPAs in Indian Banking Sector- Trend and Issues" evaluate a performance of the Scheduled commercial banks since 2000. The study is diagnostic and tools like average, percentage mean and standard deviation used to analyze the data. The study concluded that New Private sector banks and Foreign Sector banks started with clean slate and latest technologies, the Public Sector banks and old Private Sector banks had to overcome the old system and employee resistance and introduce the new system and process and norms to catch up with the competition.
- Puneet et.al (2010) “revealed that during 2008 global turmoil foreign banks and private sector banks saw sharp rise in NPA whereas SBI and nationalized bank showed resilience in NPA.”

**NEED FOR THE STUDY**

The strength & soundness of a bank mainly depends on the quality of the assets. Non- Performing assets is one of the major concerns for the banks these days. This paper is an attempt to analyze how efficiently different sector banks managed their NPAs. NPAs are like a double edged sword so, all the banks are still in the process to decreasing the NPAs. Credit risk can be defined as a risk that a firm’s customer and the parties to which it has lent money fail to make promised payments. This type of particular risk large in case of financial institutions like commercial banks. As a result, borrowing exposes the bank owner to the risk that firm will not able to pay its debt and thus be forced to insolvent.

**OBJECTIVES OF THE STUDY**

- A Comparative study of classification of assets of PSBs, PrSB & FSBs.
- To study Trend analysis of NPAs of PSBs, PrSB & FSBs
- To assess the comparative positions of NPAs of PSBs, PrSB & FSBs

**HYPOTHESES**

Following two null and alternate hypotheses are designed for the study:

- Null Hypothesis Ho1: There is no significant difference among Gross NPA of Public sector Banks, Private sector Banks & Foreign sector banks.
- Alternative Hypothesis H11: There is significant difference among Gross NPA of Public sector Banks, Private sector Banks & Foreign sector banks.
- Null Hypothesis Ho2: There is no significant difference among Net NPA of Public sector Banks, Private sector Banks & Foreign sector banks.
- Alternative Hypothesis H12: There is significant difference among Net NPA of Public sector Banks, Private sector Banks & Foreign sector banks.

**RESEARCH METHODOLOGY**

Research design used to carry out this study is descriptive research. For this study NPA of Public Sector Banks (PSBs), Private Sector Banks (PrSB) & foreign sector banks (FSBs) has been evaluated. The study is done on the basis of data for the period of 5 years from the financial year 2010-2014 and secondary data is collected mainly from the RBI Publications, bulletins & its website. Data is presented with the help of graph, charts & tables etc.

**FINDING & ANALYSIS**

**(a) COMPARATIVE ANALYSIS OF CLASSIFICATION OF ASSETS PUBLIC , PRIVATE & FOREIGN SECTOR BANKS**

TABLE 1: CLASSIFICATION OF ASSETS

Year	Standard assets (Amt in %)			Substandard assets (Amt in %)			Doubtful assets (Amt in %)			Loss assets (Amt in %)		
	PSB	PrSB	FSB	PSB	PrSB	FSB	PSB	PrSB	FSB	PSB	PrSB	FSB
2008	97.67	97.25	98.09	0.99	1.54	1.2	1.13	0.94	0.47	0.22	0.26	0.24
2009	97.9	96.75	95.7	0.93	2.02	3.46	0.99	0.96	0.59	0.18	0.26	0.25
2010	97.72	97.03	95.74	1.1	1.48	2.94	0.98	1.12	0.86	0.2	0.37	0.45
2011	97.68	97.55	97.46	1.1	0.6	0.94	1.04	1.46	1.06	0.18	0.39	0.55
2012	96.83	97.92	97.32	1.7	0.58	0.89	1.33	1.17	0.95	0.14	0.33	0.84
2013	96.16	98.09	97.03	1.89	0.56	1.07	1.81	1.06	1.02	0.14	0.29	0.87

Source: Department of Banking Supervision, RBI

**INTERPRETATION**

It is revealed from the table that performance of Foreign sector banks (FSB) & private sector Bank (PrSB) are better than public sector bank (PSB). Standard assets (Amt in % of total advances) of public sector banks is declining continuously from 2009 where as it is increasing in case of PrSB & FSB.

In case of Sub-standard assets, PSB's percentage increasing from 2009 where PrSB & FSB both declining except FSB show rising trend from 2013.

Percentage of doubtful assets is increasing in case of PSB from 2010. In case of PrSB & FSB it show increasing trend till 2011 beyond that it start falling except FSB in 2013.

Percentage of Loss assets are continuously rising in case FSB. PrSB show rising trend till 2011 then it start declining. PSB are much better than PrSB & FSB because it show declining or constant trend. Percentage of loss assets of PSB are less than PrSB & FSB.

**(b) COMPARATIVE ANALYSIS OF GNPA & NNPA OF INDIAN BANKING SECTOR**

**TABLE 2 (Amt in millions)**

Year	GNPA			NNPA		
	PSB	PrSB	FSB	PSB	PrSB	FSB
2008	404523	129974	28594	178364	56469	12466
2009	449570	169266	64445	211554	74120	29967
2010	599273	176400	71336	296434	65060	29772
2011	746639	182406	50687	360546	44322	13125
2012	1178389	187678	62966	593912	44012	14124
2013	1650057	210705	79771	900369	59944	26626
2014	2280741	245424	115790	1306237	88611	31724

Source: Statistical tables relating to banks, RBI

**INTERPRETATION**

GNPAs of PSB are increasing throughout the period of study. It is drastically increasing from 2012. From 2008 to 2014 it shows 463.81% increment in GNPA. Increment trend of GNPA is also shown by PrSB & FSB also except the year 2011 of FSB but PrSB & FSB perform better than PSB because percentage increment in quantum of GNPA are 88.83% and 304.95% respectively. PSB include SBI & its associates & all nationalized banks & majority of GNPA belongs to SBI & its associates itself. All Scheduled commercial banks show higher GNPA due to higher expansion of credit. But private sector banks perform better than public sector banks & foreign sector banks.

The increase in Gross NPAs of PSBs and old PrSBs has direct relation with the development of the economy as a whole. For instance, recession in some sectors or industrial segments like real estate, cement, textiles, etc. has added NPAs of banks in the recent period, which can be seen by the figures of year ended March 2013.

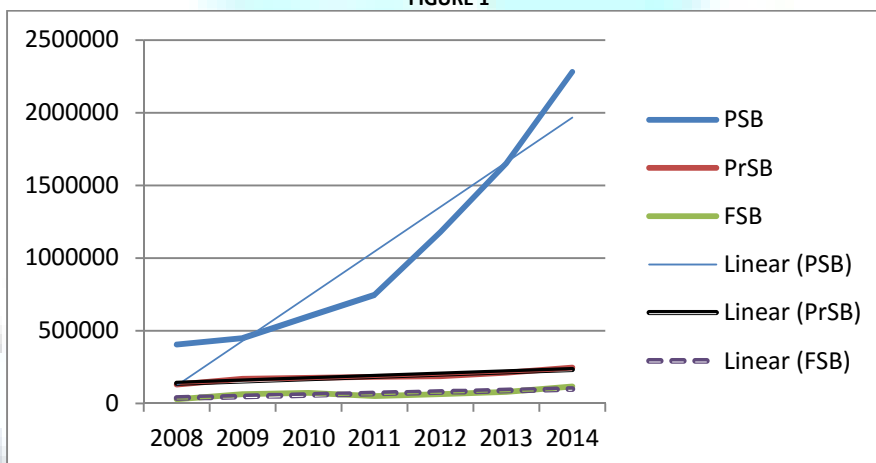
Old PrSBs were successful in reducing their net NPA ratio from 2.3% in 2001 to 0.77% in 2013 with a minimum of 0.53% in 2011. Similarly, new PrSBs also showed a remarkable decline in their net NPA ratio from 3.1% in 2001 to 0.45% in 2013. Net NPA of the 26 public sector banks rose to 2.01 per cent during 2012-13 as compared to 1.53 per cent in the previous fiscal. Net NPA of new private sector banks rose marginally to 0.45 per cent as compared to 0.42 per cent. NPA ratio of FSB has increased from 0.61% in 2012 to 1.09% in 2014.

In figure 1, linear trend in Gross NPA & Net NPA of all sector banks i.e. PSB, PrSB, FSB are decreasing by the end of 2105 as per ordinary least square trend analysis.

**TABLE 3**

Year	GNPA			NNPA		
	PSB	PrSB	FSB	PSB	PrSB	FSB
2015	2273991	243998	108661	1102823	71881	27287

**FIGURE 1**



**(c) TESTING OF HYPOTHESIS**

**TESTING OF DIFFERENCE OF GNPA AMONG DIFFERENT SECTORS**

Null Hypothesis Ho1 : There is no significant difference among Gross NPA of Public sector Banks, Private sector Banks & Foreign sector banks.

Alternative Hypothesis H11 : There is significant difference among Gross NPA of Public sector Banks, Private sector Banks & Foreign sector banks.

**TABLE 4: SUMMARY STATISTICS AND ANOVA FOR GROSS NPA (Rs. Million)**

Groups	Count	Sum	Average	Variance		
PSB	7	7309192	1044170	4.94E+11		
PrSB	7	1301853	185979	1.28E+09		
FSB	7	473589	67655.57	7.21E+08		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3.98E+12	2	1.99E+12	12.02726	0.000482	3.554557
Within Groups	2.98E+12	18	1.65E+11			
Total	6.95E+12	20				

The table 4 shows the results of ANOVA and it is evident that the calculated F statistics of 12.02726 is higher than tabular value or critical value of 3.554557 at 5 % level of significance with degrees of freedom ( $v_1=2$  and  $v_2=18$ ) and hence our analysis supports our alternate hypothesis that there is significant difference in mean of gross NPA of PSBs, PrSBs & FSB. This shows that public sector are having different level of Gross NPAs and their efficiency in management of NPAs, and quality of their assets is different from that of private sector banks (PrSB) and Foreign sector Banks (FSB).

#### TESTING OF DIFFERENCE OF NNPA AMONG DIFFERENT SECTORS

Null Hypothesis  $H_0$  : There is no significant difference among Net NPA of Public sector Banks, Private sector Banks & Foreign sector banks.

Alternative Hypothesis  $H_1$  : There is significant difference among Net NPA of Public sector Banks, Private sector Banks & Foreign sector banks.

TABLE 5: SUMMARY STATISTICS AND ANOVA FOR NET NPA (Rs. Million)

Groups	Count	Sum	Average	Variance		
PSB	7	3847416	549630.9	1.75E+11		
PrSB	7	432538	61791.14	2.56E+08		
FSB	7	157804	22543.43	78243347		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.21E+12	2	6.04E+11	10.33289	0.001027	3.554557
Within Groups	1.05E+12	18	5.84E+10			
Total	2.26E+12	20				

Similarly, table no 5 shows the ANOVA test of Net NPA of Public, Private and Foreign sector banks. It is seen from the table that calculated F statistics value of 10.33289 is higher than F-critical value (3.554557) at 5 % level of significance. Results of our ANOVA analysis support our alternate hypothesis that there is significant difference between Net NPA of PSBs, PrSBs and FSB, which shows their different approach towards asset management.

#### SUGGESTIONS

- RBI mandates that bank must follow an objective policy of income recognition based on actual recovery.
- Banks should establish proper credit assessment and risk management system to ensure proper assessment before sanctioning loans.
- Early remedial actions should be taken to reduce NPAs
- Banks can take help from various institutions like Assets reconstruction companies, debt recovery tribunals, corporate debt restructuring & CIBIL.
- Effective training and guidance should be given to the recovery teams so as to recover dues from defaulters.
- Appropriate technology should be used in managing NPAs.

#### CONCLUSION

From study it is concluded that private sector banks are performing better than other banks because it's substandard, doubtful, losses advances are increasing but their share in total gross advances are decreasing. Foreign banks Performance is better than scheduled commercial banks and public sector banks. public sector banks are not performing well because their % share of standard advances are consistently decreasing and % share of substandard and doubtful advances in total gross advances are consistently increasing. And gross NPA of public sector banks are also increasing. They should decrease their NPA by adopting different measures.

However, the decline in ratio of NPAs indicates improvement in the asset quality of Indian public sector banks and private sector banks. It is found on the basis of analysis that there is significant improvement in the management of nonperforming assets of the public sector banks in India as the ratio of gross NPAs to total advances had declined from 12.4% to 2.1% between 2001 and 2013 and the Net NPA ratio had declined from 6.7 to 1.0% during the same period. As per the trend analysis of gross NPAs, it expected to increase by 2015 in case of public and old private sector banks.

The various steps initiated by Reserve Bank of India and Government of India in strengthening/ improving the functioning of the Debt Recovery Tribunals, Lok Adalats and SARFAESI Act as a comprehensive settlement policy certainly improves the recovery in NPA accounts. All these efforts have improved the efficiency, profitability and no doubt strengthened the financial position of the all sector banks. The study further reveals that despite the huge NPA level of public sector banks, they have been successful in reducing their respective gross and net NPA ratios at par with the private sector banks and foreign sector banks.

#### LIMITATIONS

Every study has certain limitations. Same is true with this study also. Some of the limitations faced during this study are:

1. For the purpose of this study only data of 7 years has been taken that is from financial year 2008 to 2014.
2. The study covers only one aspect that is comparison of trend and amount of NPA in different public, private and foreign banks.

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