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Research Article

# A Comparative study of Non Performing Assets in Public and Private Sector Banks in the New Age of Technology

Satpal[A *]

[A]Department of Management Studies, Deenbandhu Chhotu Ram University of Science and Technology, Murthal (Sonepat), India

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***Abstract***

*Non-performing assets are one of the major concerns for banks in India. 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 also erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset 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 problem 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. It is necessary to trim down NPAs to improve the financial health in the banking system. The Indian banking sector is facing a serious problem of NPAs. An attempt is made in this paper that what is NPA? The factors contributing to NPAs, reasons for high NPAs and their impact on Indian banking operations, the trend and magnitude of NPAs in selected Indian banks.*

***Keywords:*** *Gross NPA, Net NPA, Public banks and Private Sector Banks.*

## 1. Introduction

The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets. Besides a few foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India.

What is NPA?

NPA (non-performing assets) is related to banking and finance term. When bank or finance company is unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA. It represents bad loans, the borrowers of which failed to satisfy their repayment obligations.

With effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and w.e.f 30.09.2004 following further amendments were issued by the Apex Bank,
- A loan granted for short duration crops will be treated as NPA if the instalment of principal or interest thereon remains overdue for two crop seasons.
- A loan granted for long duration crops will be treated as NPA if the instalment of principal or interest thereon remains overdue for one crop season.

*Corresponding author **Dr. Satpal** is working as Asst. Prof.

- Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

If any advance or credit facilities granted by banks to a borrower become nonperforming, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis. In other words such interests can be booked only when it has been actually received.

Narasimham Committee that mandated identification and reduction of NPAs to be treated as a national priority because NPA direct toward credit risk that bank faces and its efficiency in allocating resources. Profitability and earnings of banks are affected due to NPA numbers.

If we glance on the numbers of non-performing assets we may come to know that in the year 1995 the NPAs were Rs. 38385 crore and reached to 71047 crore in 2011 in Public sector banks and comparatively in the year 2001 the NPAs were Rs. 6410 crore and reached to Rs. 17972 crore in 2011 in Private sector banks.

*Types of NPA*

NPA may be classified into

a. Gross NPA

Gross NPA is advance which is considered irrecoverable, for which bank has made provisions, and which is still held in banks' books of account.

b. Net NPA

Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

*Asset classification categories of NPAS*

**1.** Standard assets

Standard assets are the ones in which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. Here it is also very important that in this case the arrears of interest and the principal amount of loan do not exceed 90 days at the end of financial year.

If asset fails to be in category of standard asset that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories.

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

**2.** Sub-standard assets

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 month.

**3.** Doubtful assets

A loan classified as doubtful if it remained in the sub-standard category for 12 months.

**4.** Loss assets

A loss asset is one which 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. Also, these assets would have been identified as „loss assets" by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

*Provisioning norms for NPAS*

After a proper classification of loan assets the banks are required to make sufficient provision against each of the NPA account for possible loan losses as per prudential norms. The minimum amount of provision required to be made against a loan asset is different for different types of assets. The details of the provisioning requirements as per the RBI guidelines are furnished below:

In terms of RBI circular No RBI/2004/254/DBOD No. BP.BC.NO 97/21.04.141/2003-04 dated 17.06.2004, the Reserve Bank of India has decided that w.e.f March31, 2005, a general provision of 10 percent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

NPAs under Substandard Assets category The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 percent, i.e a total of 20 percent on the outstanding balance. The provisioning requirement for unsecured doubtful assets is 100 percent. NPAs under Doubtful category

In terms of RBI Circular No. 2004/261/DBOD BP.BC.99/21.04.048/2003-2004 dated 21.06.2004, Reserve Bank decided to introduce graded higher provisioning according to the age of NPAs in doubtful category for more than three years, with effect from March 31, 2005.

Consequently the increase in provisioning requirement on the secured portion would be applied in a phase manner over a three year period in respect of the existing stock of NPAs as classified as 'doubtful for more three years as on March 31, 2004 as per clarification given hereunder: In respect of all advance classified as doubtful for more than three years on or after 1 April, 2004 the provisioning requirement would be 100 percent.

Accordingly the provisioning norm for advances identified as doubtful for more than 3 years would be as Indicated below as on March31, 2009.

(a) Unsecured Portion

The portion of the advance which is not covered by the realizable value of the tangible security to which the bank has the valid recourse and the realizable value is estimated on a realistic basis, provision would be to the extent of 100%.

(b) Secured Portion

Upto 1 year : 20% (D1 Category)
One to three years : 30% (D2 Category)
More than three years : 100% (D3 Category)
NPAs under Loss category
Provisioning at 100% for loss category would continue

*Factors for rise in NPAs*

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 are growing due to external as well as internal factors.

External factors

**a.** Ineffective recovery **-** The Govt. has set up numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, thereby reducing their profitability and liquidity.
**b.** Wilful defaults **-** There are borrowers who are able to pay back loans but are intentionally withdrawing it. These groups of people should be identified and proper measures should be taken in order to get back the money extended to them as advances and loans.
**c.** Natural calamities **-** This is the major factor, which is creating alarming rise in NPAs of the PSBs. Every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit.
**d.** Industrial sickness **-** Improper project handling, ineffective management, lack of adequate resources , lack of advance technology , day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.
**e.** Lack of demand **-** Entrepreneurs in India could not foresee their product demand and starts production which ultimately piles up their product thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum label. Thus the banks record the non-recovered part as NPAs and has to make provision for it.
**f.** Change on govt. Policies - With every new govt. banking sector gets new policies for its operation. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs.
**g.** Directed loans system - Under this commercial banks are required to supply 40% percentage of their credit to priority sectors. Most significant sources of NPAs are directed loans supplied to the ―micro sector are problematic of recoveries especially when some of its units become sick or weak.

Internal factors

**a.** Defective lending process **-** There are three cardinal principles of bank lending that have been followed by the commercial banks since long. i. Principle of safety ii. Principle of liquidity iii. Principle of profitability.
**b.** Inappropriate technology **-** Due to inappropriate technology and management information system, market driven decisions on real time basis can't be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPAs. All the branches of the bank should be computerized.
**c.** Improper swot analysis **-** The improper strength, weakness, opportunity and threat analysis is another reason for rise in NPAs. While providing unsecured advances the banks depend more on the honesty, integrity, and financial soundness and credit worthiness of the borrower.
**d.** Poor credit appraisal system **-** Poor credit appraisal is another factor for the rise in NPAs. Due to poor credit appraisal the bank give advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.
**e.** Managerial deficiencies **-**The banker should always select the borrower very carefully and should take tangible assets as security to safe guard its interests. When accepting securities banks should consider the: 1. Marketability 2. Acceptability 3. Safety 4. Transferability
The banker should follow the principle of diversification of risk based on the famous maxim do not keep all the eggs in one basket, it means that the banker should not grant advances to a few big farms only or to concentrate them in few industries or in a few cities. If a new big customer meets misfortune or certain traders or industries affected adversely, the overall position of the bank will not be affected.
**f.** Absence of regular industrial visit **-** The irregularities in spot visit also increases the NPAs. Absence of regularly visit of bank officials to the customer point decreases the collection of interest and principals on the loan. The NPAs due to wilful defaulters can be collected by regular visits.
**g.** Faulty credit management - like defective credit in recovery mechanism, lack of professionalism in the work force.

*Impact of NPA*

NPA impact the performance and profitability of banks. The most notable impact of NPA is change in banker's sentiments which may hinder credit expansion to productive purpose. Banks may incline towards more risk-free investments to avoid and reduce riskiness, which is not conducive for the growth of economy. If the level of NPAs is not controlled timely they will:

- 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.

## 2. Review of Literature

Many published articles are available in the area of non-performing assets and a large number of researchers have studied the issue of NPA in banking industry. A review of the relevant literature has been described as under:

**H.S. (2013)** in her study A study on causes and remedies for non-performing assets in Indian public sector banks with special reference to agricultural development branch, state bank of Mysore has studied that bankers can avoid sanctioning loans to the non-creditworthy borrowers by adopting certain measures. There should be careful appraisal of the project which involves checking the economic viability of the project. A banker must consider the return on investment on a proposed project. If the calculated return is sufficiently higher than the credit amount he can sanction the loan. Secondly, he can constantly monitor the borrower in order to ensure that the amount sanctioned is utilized properly for the purpose to which it has been sanctioned. This involves the post sanction inspection by the banker.

**Kumar (2013)** in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance and headache for the Indian banking sector for the past several years. One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge non-performing assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

**Selvarajan & Vadivalagan (2013)** in A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) their research paper has studied that the growth of Indian Bank’s lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade. Therefore, the management of banks must pay special attention towards the NPA management and take appropriate steps to arrest the creation of new NPAs, besides making recoveries in the existing NPAs. Timely action is essential to ensure future growth of the Bank.

**Singh (2013)** in his paper entitled Recovery of NPAs in Indian commercial banks says that the origin of the problem of burgeoning NPA’s lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. Banks have to be given powers of inspection of the use of loans and the loan should be disbursed on the point of purchase by the borrowers to ensure proper utilization of deposits. Banks may also be given powers to recover loans from the guarantor of the borrower.

**Gupta (2012)** in her study A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks had concluded that each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before than credit facility. An effective committee can be formed for management of NPA comprising of financial experts who have wide knowledge in this field. Banks can appoint professionals to identify the genuine borrowers & can analyse their profile. NPA can be considered as a crucial rating factor for any bank; it should continuously monitor the borrowers A/C to prevent NPA. The credit rating agencies should regularly evaluate the financial condition of the clients. Special accounts should be made of the clients where monthly loan concentration report should be made.

**Rai (2012)** in her study on Study on performance of NPAs of Indian commercial banks said that till recent past, corporate borrowers even after defaulting continuously never had the fear of bank taking action to recover their dues. This is because there was no legal framework to safeguard the real interest of banks. However with the introduction of SARFAECI ACT banks can issue notices to defaulters to repay their loans. Also, the Supreme Court has recently given the banks the freedom to sell mortgage assets of the borrowers, if they do not respond to the legal proceedings initiated by lender. This enables banks to get sticky loans thereby improving their bottom lines.

**Khanna (2012)** in her research paper entitled Managing NPA in commercial banks has said that the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs) and nowadays these are one of the major concerns for banks in India. 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 also erodes the value of the asset.

**Chatterjee, Mukherjee and Das (2012)** in their study on Management of non-performing assets - a current scenario has concluded that banks should find out the original reasons/purposes of the loan required by the borrower. Proper identification of the guarantor should be checked by the bank including scrutiny of his/her wealth. Framing reasonably well documented loan policy and rules. Sound credit appraisal on well-settled banking norms with emphasis on reduction in Gross NPAs rather than Net NPAs Position of overdue accounts is reviewed on a weekly basis to arrest slippage of fresh account to

NPA. Half yearly balance confirmation certificates should be obtained from the borrowers.

**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 (NPAs) as these assets are proving to become a major setback for the growth of the economy.

**Prasad and Veena (2011)** in their study on NPAs Reduction Strategies for Commercial Banks in India stated that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The NPAs have destructive impact on the return on assets in the following ways. The interest income of banks reduced it is to be accounted only on receipt basis. The current profits of the banks are eroded because the providing of doubtful debts and writing it off as bad debts and it limits the recycling funds.

**Chaudhary and Sharma (2011)** in their research paper on Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study stated that it is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement.

**Karunakar (2008)**, in his study Are non - Performing Assets Gloomy or Greedy from Indian Perspective,has studied the important aspect of norms and guidelines for making the whole sector vibrant and competitive. The problem of losses and lower profitability of Non-Performing Assets (NPA) and liability mismatch in Banks and financial sector depend on how various risks are managed in their business. The lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. It is better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.

**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 (NPAs) 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 paper 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 (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.

**Murali and Krishna (2006)** in their paper, Ensuring Qualitative Credit Growth through Effective Monitoring of Advances, observed that there has been a spirit in the lending activity of banks, in the recent past. This is due to two factors, viz. availability of huge surplus funds with the banks and the losses suffered by the banks in investment and treasury activities. While credit growth is needed for survival, it is imperative to ensure that the credit growth does not result in non-performing advances later. For this banks have to resort to effective pre-disbursement as well as post-disbursement monitoring. The authors concluded that negligence in monitoring a loan was less excusable than an error at the appraisal stage.

**Balasubramaniam** (2001) in Non-performing assets and profitability of commercial banks in India: assessment and emerging 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.

*Conclusion of the Literature Review*

After studying all these research papers, some major points can be concluded, like NPA are becoming a major threat to the profitability of both Public as well as Private sector banks. The level of NPA is more in Public sector banks than private banks and the most important reason of high level of NPA in public sector banks is priority sector lending or directed loan system. Besides this, various studies show that the other important reason for rising NPA level are poor credit appraisal system and poor follow up of the borrower. And unavailability of credit rating information about the borrower is also not available. Among the important ways of curbing rising NPA level is that banks should have their own independent credit agency and a proper credit appraisal of the projects should be done before granting loan to anyone. And effective follow up should be done once the loan is granted. Changes in legal framework as well as government policies regarding priority sector lending needs to be changed.

## 3. Objectives

The study aims to gain insights into the position of Non-Performing Assets of all commercial banks categories in

**Table 1:** Gross and Net NPA of Public Sector Banks

| Year | SBI | | | | PNB | | | | Bank of Baroda | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GNPA | %GNPA | NNPA | %NNPA | GNPA | %GNPA | NNPA | %NNPA | GNPA | %GNPA | NNPA | % NNPA |
| 2009 | 16346 | 3.01 | 9,552 | 1.76 | 2965.33 | 1.55 | 1552.59 | 1.09 | 1842.92 | 1.2 | 602.32 | 0.34 |
| 2010 | 19535 | 3.09 | 10,870 | 1.72 | 3356.24 | 1.68 | 1678.52 | 1.12 | 2400.69 | 1.25 | 652.26 | 0.38 |
| 2011 | 25,326 | 3.28 | 12,346 | 1.63 | 4,379.39 | 1.79 | 2,038.63 | 1.23 | 3,152.50 | 1.36 | 790.88 | 0.35 |
| 2012 | 39,676 | 4.44 | 15,818 | 1.82 | 8,719.62 | 2.93 | 4,454.23 | 1.52 | 4,464.75 | 1.53 | 1,543.64 | 0.54 |
| 2013 | 51,189 | 4.75 | 21,956 | 2.1 | 13,465.79 | 4.27 | 7,236.50 | 2.35 | 7,982.58 | 2.4 | 4,192.02 | 1.28 |
| **Avg.** | **30,263** | **3.6** | **14,108** | **1.8** | **6577.27** | **2.44** | **3392.09** | **1.46** | **3,968.69** | **1.548** | **1,556.22** | **0.578** |

*Sources: www.sbi.co.in, www.pnbindia.in, www.bankofbaroda.co.in and www.moneycontrol.com*

**Table 2**: Gross and Net NPA of Private Sector Banks

| Year | ICICI | | | | HDFC | | | | AXIS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GNPA | %GNPA | NNPA | %NNPA | GNPA | %GNPA | NNPA | %NNPA | GNPA | %GNPA | NNPA | %NNPA |
| 2009 | 96,49 | 3.96 | 45,53 | 2.09 | 1988 | 1.12 | 627 | 0.63 | 897 | 1.15 | 327 | 0.4 |
| 2010 | 94,80 | 4.36 | 38,41 | 2.12 | 1,816 | 1.09 | 392 | 0.31 | 1318 | 0.98 | 419 | 0.4 |
| 2011 | 10,034 | 4.47 | 2,407 | 1.11 | 1,694 | 1.05 | 296 | 0.2 | 159 | 1.01 | 41 | 0.26 |
| 2012 | 9,475 | 3.62 | 1,860 | 0.73 | 1,999 | 1.02 | 352 | 0.2 | 1,806 | 0.94 | 472 | 0.25 |
| 2013 | 9,607 | 3.22 | 2,230 | 0.77 | 2,334 | 0.97 | 468 | 0.2 | 2,393 | 1.06 | 704 | 0.32 |
| **Avg.** | **44,083** | **3.92** | **18,089** | **1.36** | **1,966** | **1.05** | **372.56** | **0.3** | **1,315** | **1.02** | **392.7** | **0.32** |

*Sources: www.icicibank.com, www.hdfcbank.com, www.axisbank.com and www.moneycontrol.com*

**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 |
| 2009 | 21154.25 | 5.76 | 11,707 | 3 | 2885 | 6.23 | 954 | 3.12 |
| 2010 | 25,292 | 6 | 13,201 | 3 | 3,134 | 6 | 811 | 3 |

public sector, private sector, scheduled commercial banks and foreign banks. The following broad objectives are laid down for the purpose 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 NPA's of public sector and private sector banks.

## 4. 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 - State Bank of India, Corporation Bank, Bank of Baroda and three Private sector Banks - ICICI Bank Ltd, Axis Bank Ltd, HDFC Bank . The study is done on the basis of data for the period of 5 years from the financial year 2009-2013 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.

*Analysis of data*

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

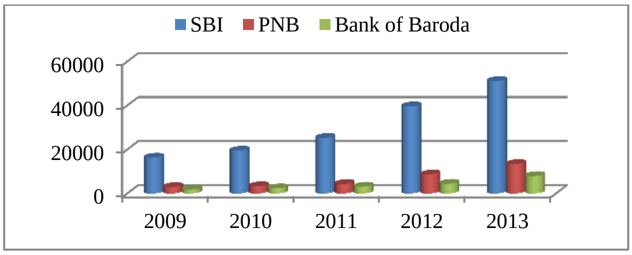


**Figure 1** GNPA of public banks

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

Figure 2 shows that the average GNPA and NNPA of ICICI is highest among all three banks. The % GNPA and %NNPA is also highest in ICICI and lowest in HDFC. The trend on GNPA is almost constantly high in ICICI. The level of GNPA in HDFC is almost same in 5 years. And in case of Axis bank it is highest in 2013 and lowest in 2011.

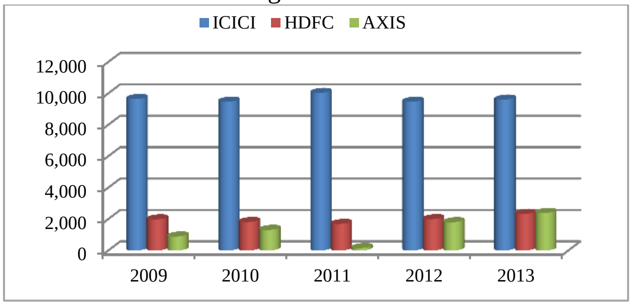


**Figure 2** GNPA of Private Banks

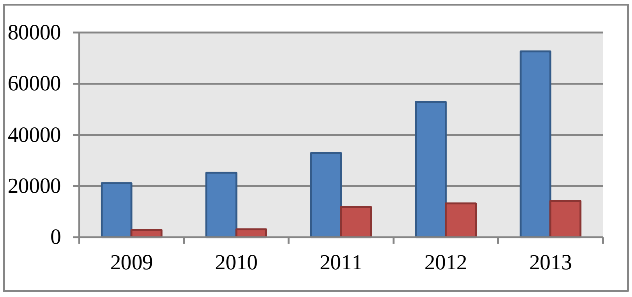


**Figure 3** Gross NPA of Public and Private Banks

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

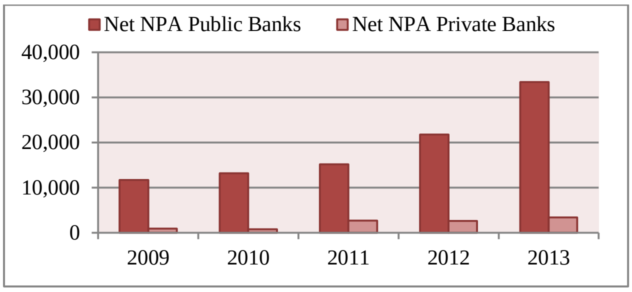


**Figure 4** Net NPA of Public and Private Banks

Figure 4 is 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 five years but in private banks it is increasing till 2011 but after that it is almost constant.

*Limitations of Study*

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 5 years has been taken that is from financial year 2009 to 2013.
2. The data would be collected from only 6 banks that is 3 private sector banks and 3 public sector banks.
3. The study covers only one aspect that is comparison of trend and amount of NPA in different public and private banks.
4. Convenience method of sampling has been used so all the units in the universe (all public and private banks) did not have the equal chances of selection.

## 5. Conclusion

The NPAs have always created a big problem for the banks in India. It is just not only 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 lended. This study shows that extent of NPA is comparatively very high in public sectors 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 NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA 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.

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