A Comparative Analysis of Growing NPAs between Public Sector Banks and Private Sector Banks

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Abstract:

The growth of the economy depends upon the efficiency and stability of the banking sector. A healthy banking system is essential for any economy striving to achieve growth and remain stable in competitive global business environment. Multiple macroeconomic, demographic and technological developments make the Indian banking sector one of the most attractive opportunities globally. Challenges like high- stressed asset levels and fragmented industry structure are dragging down the performance & threatening future growth. The best indicator for the health of the banking industry in the country is its level of Non- Performing Assets (NPAs). Non-performing assets have direct impact on the financial performance of banks i.e. their profitability. Non-performing assets (NPAs) have been a significant concern for the Indian banking sector in recent years. This paper deals with understanding the concept of NPAs, its magnitude and major causes for an account becoming non-performing and strategies for managing NPA in Indian Banking system.

Keywords: *Non-performing Assets (NPAs), Performance, RBI, Banking system, Growth rate*

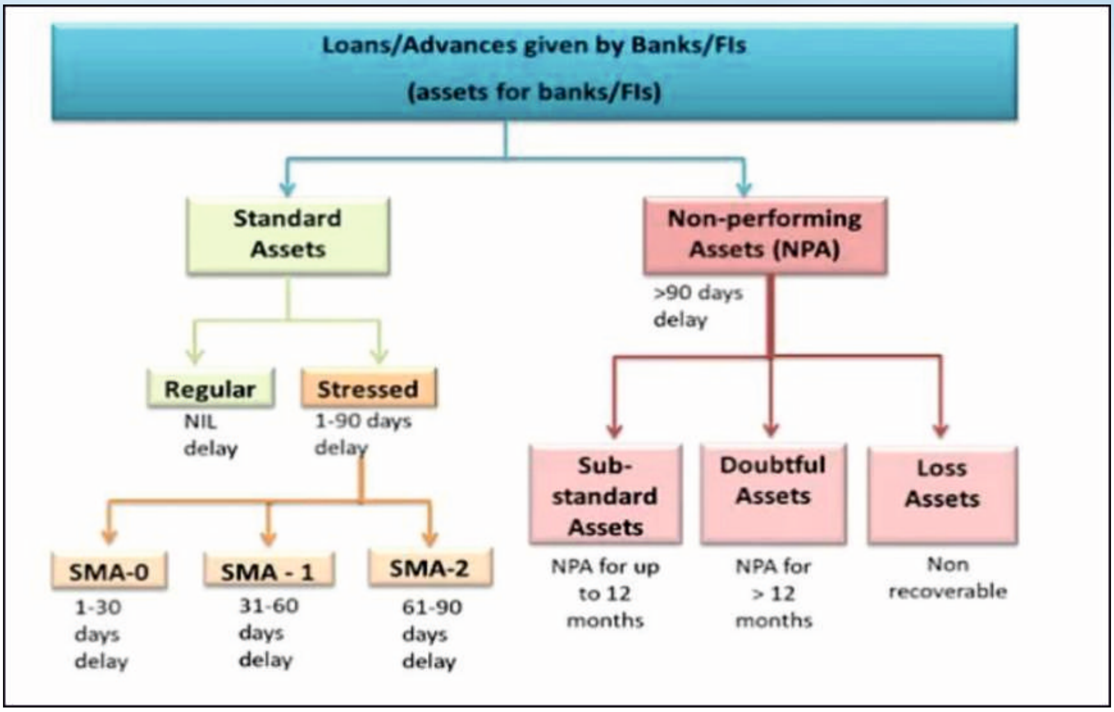
Introduction :

The banking sector is a keystone of any financial system. The smooth functioning of the banking sector ensures the healthy condition of an entire economy. The major function of the financial system is the mobilisation of public savings and its allocation in different sectors of the economy as an investment. The funds received from the borrowers by way of interest on loan and repayments of principal are recycled for raising resources.

However, building up of non-performing assets (NPAs) disrupts this flow of credit. The main source of income of banks is through the interest earned on loans and advances and repayment of the principal. If such assets fail to generate income, then they are classified as non-performing assets (NPA). According to the Reserve Bank of India, NPA is defined as a credit facility in respect of which the interest and/or instalment of principal is "past due" for a specified period. Generally, if the loan payments have not been made for a period of 90 days, the asset is classified as non-performing asset.

On the basis of how long the asset has been non-performing, banks are required to sort the non-performing assets in one of the following categories:

- *sub-standard asset:* If an asset has been non-performing for less than 12 months;
- *doubtful asset:* If an asset has been non-performing for more than 12 months; and
- *loss assets:* Assets where losses have been identified by the bank, auditor or inspector and have not been fully written off.



Source: https://prepp.in/news/e-492-non-performing-assets-npa-indian-economy-notes

NPAs are of two types:

- *Gross NPAs*- 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 quality of the loans made by banks. It consists of all the non standard assets like as sub standard, doubtful and loss assets.

Gross NPAs = Gross NPAs/Gross Advances.

- *Net NPAs*- Net NPAs are those type of NPAs from which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. The provisions against the NPAs are to be made as per RBI guidelines. That is why difference between gross and net NPA is quite high.
- **Net NPAs= Gross NPAs provisions / Gross Advances Provisions.**

  In present scenario NPAs are at the core of financial problem of the banks. Concrete efforts have to be made to improve recovery performance. The main reasons of increasing NPAs are the target-oriented approach, which deteriorates the qualitative aspect of lending by banks and willful defaults, ineffective supervision of loan accounts, lack of technical and managerial expertise on the part of borrowers. The rising NPAs pose serious threat not only to banks profitability, liquidity and solvency but also prove fatal to the economic growth of the country. So, the problem of NPA should be nipped in the bud. It is possible only if the check is placed on NPAs from the very beginning. Eagle's eye should be kept on loan proposal, its usage should be properly monitored and followed up and viable collection policy should be framed.

  The prudential norms introduced provide not only transparency in financial position but also enables the banks to manage their assets more efficiently.

  This paper attempts to examine the trend in NPAs from which primarily focused on analyzing the growth rate in non-performing assets in public sector and private sector banks. The paper also attempts to identify possible causes which drive loans to become bad along with its impact on the future performance of banks. The study also provides suggestions banks can take to minimize the problem.

Objectives:

- To study the concept of NPA's and its impact on banks' performance
- To analyze the trends of NPA's in Indian banking sector
- To understand the different measures to control NPA's
- To understand the future of NPA's on banking system in India.

Need for the study:

- Studying NPAs can provide insights into the weaknesses in the credit risk assessment and management processes, allowing banks to improve their risk management practices.
- Examining NPAs to understand borrower behavior, economic conditions, and the impact of external factors on loan repayment.
- Understanding NPAs for formulating and implementing regulatory policies and guidelines.

  An analysis of NPAs can help identify barriers to financial inclusion and suggest ways to provide banking services.

Research Methodology:

A research methodology is a process by which researchers design their study so that they can achieve their objectives using the selected research instruments. It includes all the important aspects of research, including research design, data collection methods, data analysis methods, and the overall framework within which the research is conducted. A well-designed research methodology ensures that the study is reliable, valid, and objective.

The study is based on quantitative and descriptive research design. The time period covered for the study is from 2016 to 2022.

Data Collection-

The data collected is based on secondary data that has been collected from the published documents of Reserve Bank of India, banks, financial institutions, and government reports. For purposes of the study five banks according to market capitalization from each of PSBs & PvBs, are selected.

Data Analysis-

For the purpose of analysis and comparison between two sectors i.e. Public sector banks (PSBs), Private sector banks (PvBs) are selected & five banks from each of the sectors are taken to compare the non- performing assets of the banks. Five PvBs selected for the purpose of the study are: HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Axis Bank, IndusInd Bank. Five public sector banks selected for the study are: State Bank of India (SBI), Bank of Baroda (BOB), Punjab National Bank (PNB), Indian Overseas Bank (IOB), Union Bank of India (UBI).

Here, gross and net NPA data for last five years 2016 to 2022 is taken for the purpose of comparison among banks and to observe past trends of NPAs. Gross and Net NPAs are taken as percentage of total Assets.

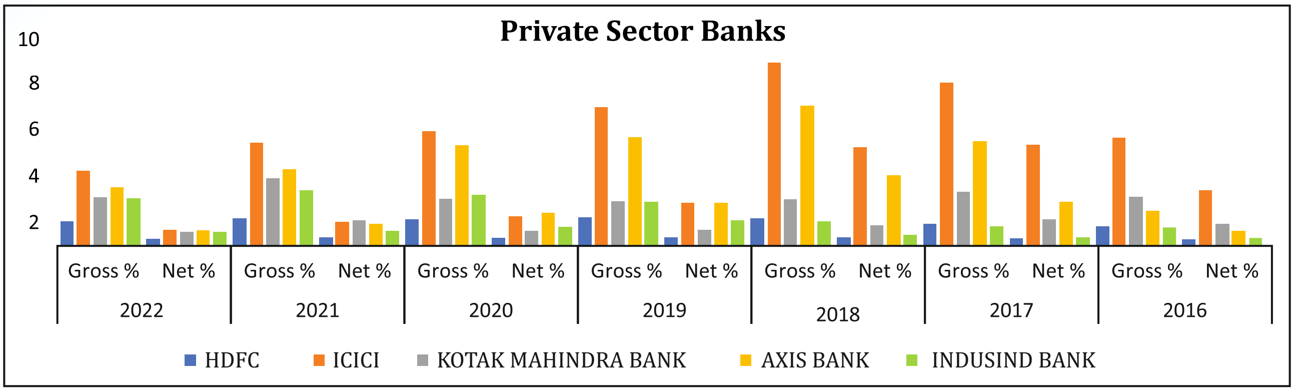
A.Comparison of Gross & Net NPAs in Public & Private Sector Banks-

Table no. 1- Gross & Net NPAs of PSBs

YEARS	2022		2021		2020		2019		2018		2017		2016	
Private Sector	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %
HDFC	1.17	0.32	1.32	0.4	1.26	0.36	1.36	0.39	1.3	0.4	1.05	0.33	0.94	0.28
ICICI	3.6	0.76	4.96	1.14	5.53	1.41	6.7	2.06	8.84	4.77	7.89	4.89	5.21	2.67
KOTAK MAHINDRA	2.34	0.64	3.25	1.21	2.25	0.71	2.14	0.75	2.22	0.98	2.59	1.26	2.36	1.06
AXIS BANK	2.82	0.73	3.7	1.05	4.86	1.56	5.26	2.06	6.77	3.4	5.04	2.11	1.67	0.7
INDUSIND BANK	2.27	0.64	2.67	0.69	2.45	0.91	2.1	1.21	1.17	0.51	0.93	0.39	0.87	0.36

Source: RBI Website, Respective Bank website> Annual Report

YEARS	2022		2021		2020		2019		2018		2017		2016	
Public Sector	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %
SBI	3.97	1.02	4.98	1.5	6.15	2.23	7.53	3.01	10.91	5.73	6.90	3.71	6.50	3.81
BOB	0.07	0.02	8.87	3.09	9.4	3.13	9.61	3.33	12.26	5.49	10.46	4.72	9.99	5.06
PNB	11.78	4.8	14.12	5.73	14.21	5.78	15.5	6.56	18.38	11.24	12.53	7.81	12.90	8.61
IOB	9.82	2.65	11.69	3.58	14.78	5.44	21.97	10.81	25.28	15.33	22.39	13.99	17.40	11.89
UBI	11.11	3.68	13.74	4.62	14.15	5.49	14.98	6.85	15.73	8.42	11.17	6.57	8.70	5.25



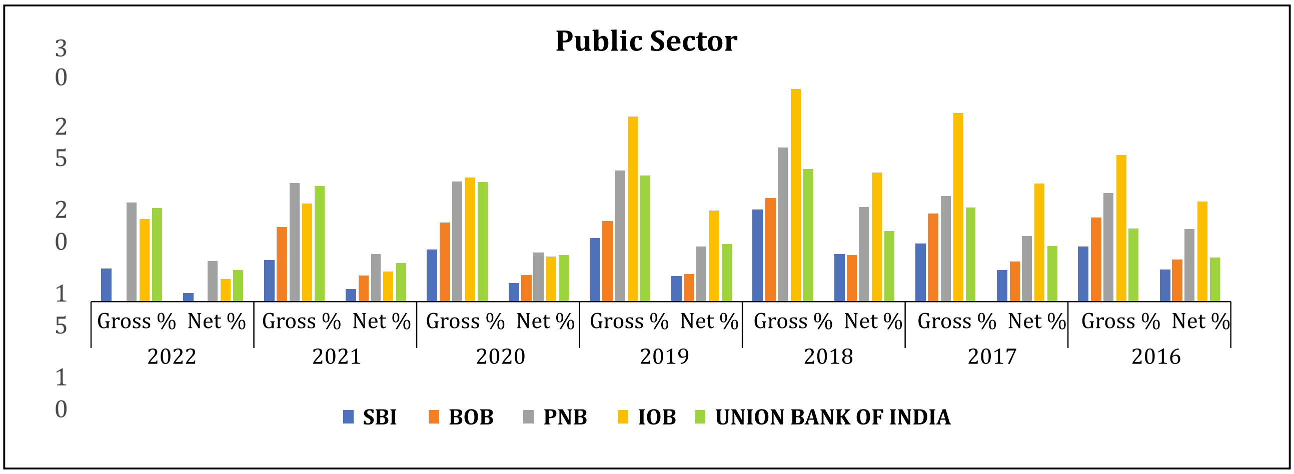


Table 1 & Table 2 contains data about the top 5 PvBs & PSBs according to market capitalization from the year 2018 to 2022, representing gross & net percent (%) NPAs.

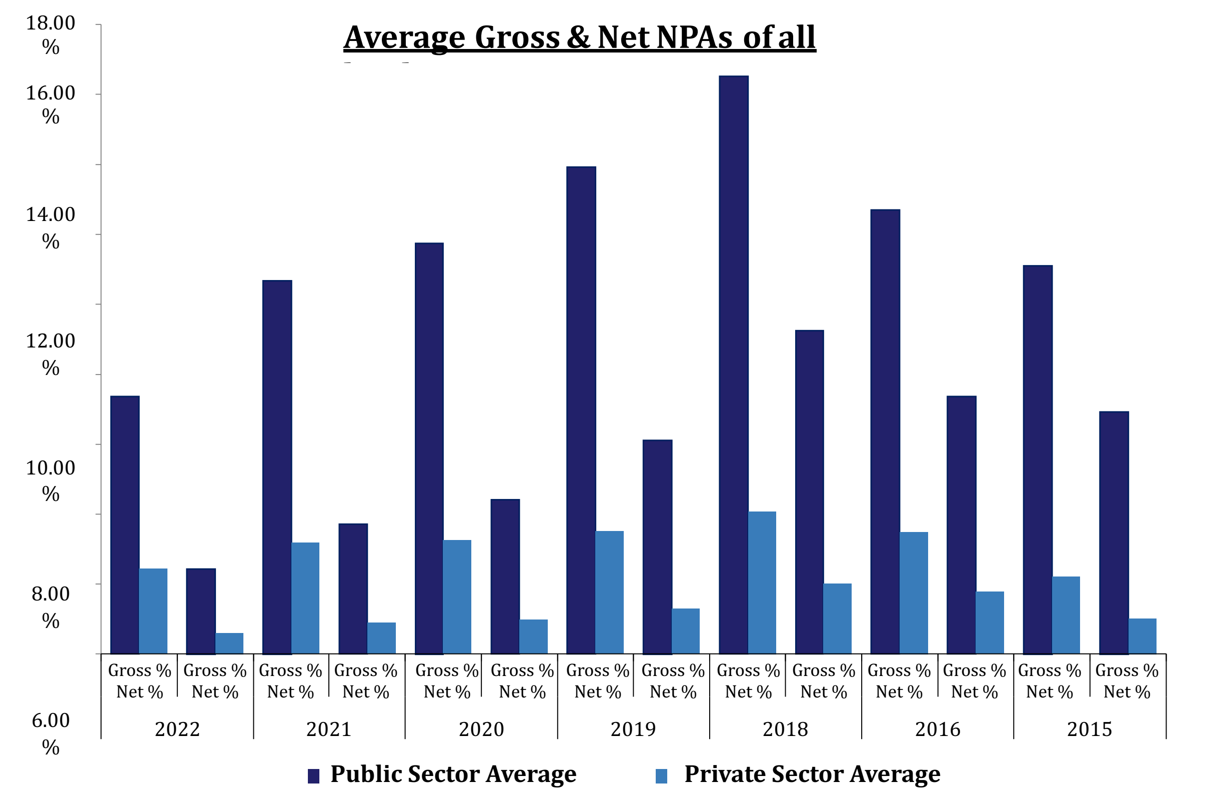
Fig 1- X-axis represents yearly gross & net percentage of all 5 PvBs & Y axis represents percentage of NPAs. The above graph shows the percentage of gross & net NPAs of 5 different PvBs for the period of 7 years i.e from 2016 to 2022. Among all private banks, ICICI Bank had high Gross & Net NPAs in 2018 & 2017 respectively. With 0.87% IndusInd Bank had lowest Gross NPA in 2016 & HDFC bank had lowest Net NPA in 2016 with 0.28%. It can be interpreted from this graph that over the period of last seven (7) years

Fig 2- X-axis represents yearly gross & net percentage of all 5 PSBs & Y axis represents percentage of NPAs. IOB bank had highest Gross as well as Net NPA among other top 5 banks according to market capitalization in 2018. In 2020 PNB merged with Oriental bank of Commerce and United bank India & Andhra bank and Corporation bank were amalgamated into UBI due to which their NPA has overtaken IOB bank Which has highest Gross as well as Net NPA among other top 5 banks according to market capitalization in 2018.The BOB has lowest gross & net NPAs

A.Average Gross & Net NPAs of all banks

YEARS	2022		2021		2020		2019		2018		2017		2016	
	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %	Gross %	Net %
Public Sector Avg	7.35	2.43	10.68	3.70	11.74	4.41	13.92	6.11	16.51	9.24	12.69	7.36	11.10	6.92
Private Sector Avg	2.44	0.62	3.18	0.90	3.27	0.99	3.51	1.29	4.06	2.01	3.50	1.80	2.21	1.01

Source: RBI Website, Respective Bank website> Annual Report



The growing NPAs affect the health of banks, profitability and efficiency. It erodes the net worth of the banks. All ten banks gross and net NPAs are taken together for better understanding of the trend. With reference to above graph X axis represents yearly average gross & net NPAs of PSBs & PvBs, Y axis represents percentage of NPAs. The PSBs has the higher NPAs as compare to PvBs. The bar graph shows an incline in gross% and net% NPAs in both PSBs & PvBs during the year 2016 upto 20118. The major reason behind it was the the implementation of 'Demonetization' in 2016 & introduction of 'GST' in 2017. The NPA's had raised Gross% from 11.098 upto 16.512 in PSBs & from 2.21 upto 4.06 in PvBs.

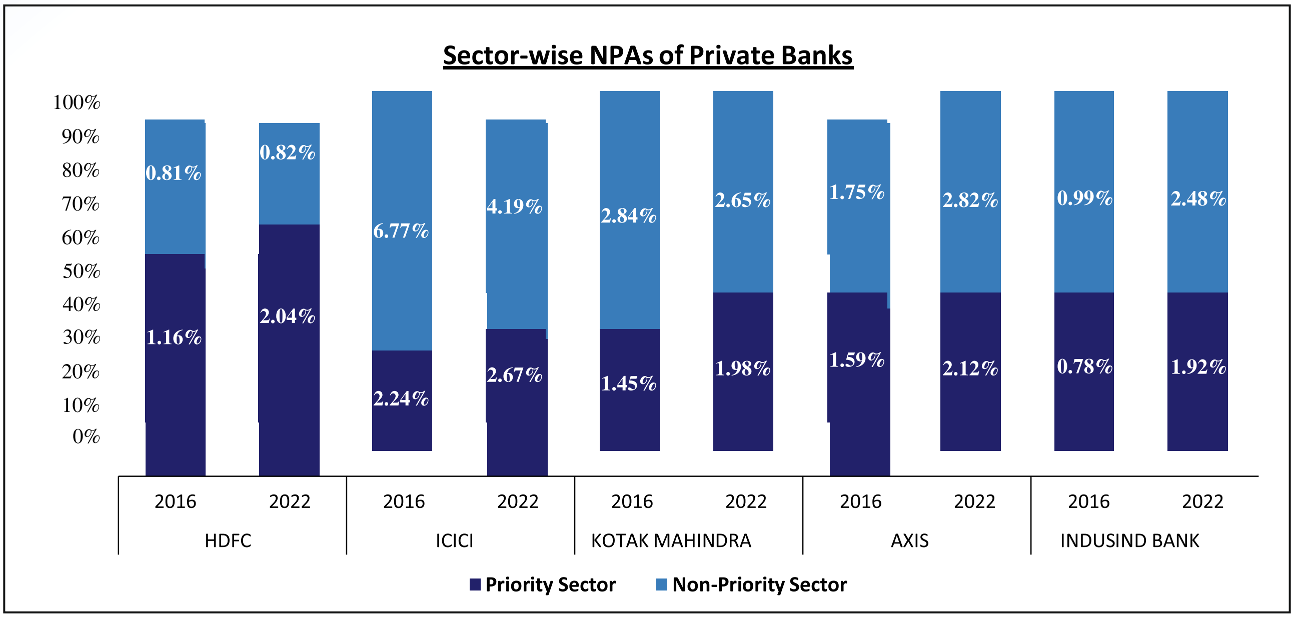
Similarly, Net% increased fron 6.924 to 9.242 & from 1.014 upto 2.012 in PSBs & PvBs respectively. After, 2018 the gross NPAs of PSBs has declined from 16.51% to 7.35% & net NPAs has declined from 9.24% to 2.43%, whereas in the PvBs the gross NPAs has reduced to 2.44% from 4.06% & net NPAs has reduced to 0.61% from 2.01% as various regulatory measures were taken by RBI to address the issues of NPA's.

A. Comparison of Sector-wise Gross NPAs of Private & Public Sector Banks

Sector-wise NPAs of PvBs –

BANKS	HDFC		ICICI		KOTAK MAHINDRA		AXIS		INDUSIND	
YEARS	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**
Priority Sector	1.16	2.04	2.24	2.67	1.45	1.98	1.59	2.12	0.78	1.92
Non-Priority Sector	0.81	0.82	6.77	4.19	2.84	2.65	1.75	2.82	0.99	2.48

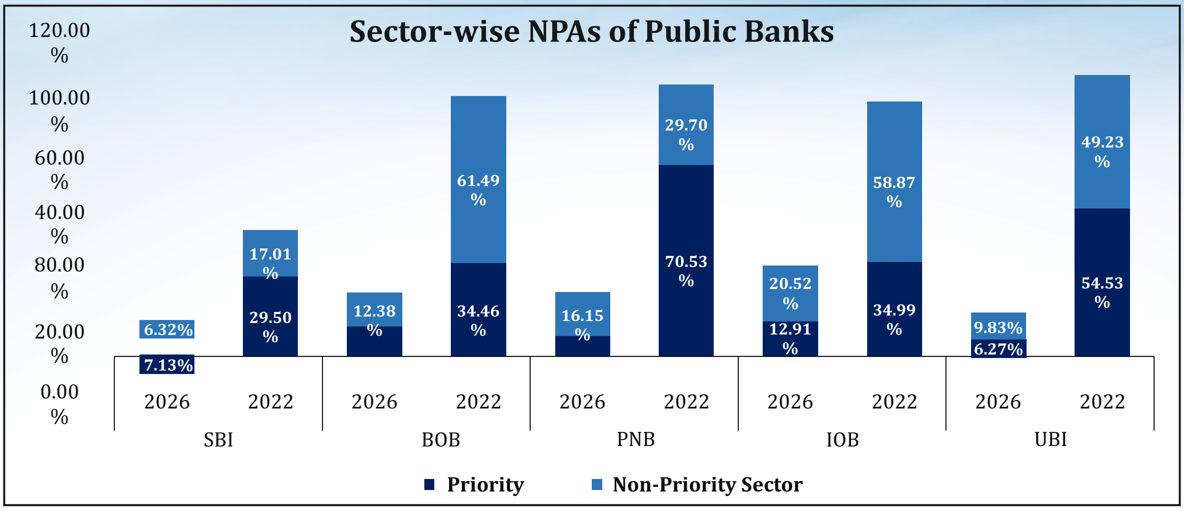
Source: RBI Website, Respective Bank website> Annual Report



The above table shows the division of the priority sector & non-priority sector between 5 different PvBs. It includes the different sectors in both the priority & non-priority sectors. In comparison with the PSBs, the PvBs show low amounts of NPAs in both priority & non-priority. The ICICI bank has the highest NPAs in both the priority & non-priority sector in 2016 as well as in 2022 among the 5 banks, whereas inducing banks have lower NPAs in the priority sector in 2016 & 2022. HDFC banks have the lowest NPAs in the non-priority sector in 2016-2022.

Sector-wise NPAs of PSBs -

BANKS	SBI		BOB		PNB		IOB		UBI	
YEARS	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**	**2016**	**2022**
Priority Sector	7.13	29.5	11.06	34.46	7.49	70.53	12.91	34.99	6.27	54.53
Non-Priority Sector	6.32	17.01	12.38	61.49	16.15	29.7	20.52	58.87	9.83	49.23



The above table shows the advances given to the different sectors, which include Priority and Non-Priority sector of PSBs. The priority and non- priority sector consists of different sectors such as Agriculture & allied activities, Industry, Services, and Personal Loans. The analysis reveals that the majority of NPAs are from the industry sector, whereas personal loans have a minor share in NPAs. The 2022 shows high NPA in both priority & non priority as compared to 2016. The IOB has a high NPA in both sectors in 2016. In 2022, PNB has the highest NPA in the priority sector and BOB has a high NPA in the non-priority sector. The UBI had the lowest NPA in 2016 for the priority sector & SBI had the lowest NPA in the non-priority sector. The SBI has low NPA in both sectors in 2022

Measures taken to tackle NPAs-

There have been several steps taken by the Government of India & Reserve Bank of India on legal, financial, policy-level reforms. In the year 1991, **Narsimham committee** recommended many reforms to tackle NPAs. Some of them were implemented.

- Credit Information Bureau – 2000

  A good information system is required to prevent loans from falling into bad hands and therefore prevention of NPAs. It helps banks by maintaining and sharing data of individual defaulters and willful defaulters.

- Lok Adalats – 2001

  They are helpful in tackling and recovery of small loans however they are limited up to 5 lakh rupees loans only by the RBI guidelines issued in 2001.

- SARFAESI Act – 2002

  The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 – The Act permits Banks / Financial Institutions to recover their NPAs without the involvement of the Court, through acquiring and disposing of the secured assets in NPA accounts with an outstanding amount of Rs. 1 lakh and above. The banks have to first issue a notice. Then, on the borrower's failure to repay, they can:

  1. Take ownership of security and/or
  2. Control over the management of the borrowing concern.
  3. Appoint a person to manage the concern

- ARC (Asset Reconstruction Companies)

  Recovering value from stressed loans bypassing courts which was a time-consuming process.

- Corporate Debt Restructuring (2005)

  Reduce the burden of debts on the company by giving more time to the company to payback as well as decreasing the rates along with it.
- The Debt Recovery Tribunals (DRTs) – 2013

  It was set up to reduce the time required for settling cases. Governed by Recovery of Debt due to Banks and Financial Institutions Act, 1993. Insufficient numbers, hence cases are pending for longer durations.
- 5:25 Rule (2014)

  This is also called Flexible Restructuring of long Term Project Loans to Infrastructure and Core Industries. This involves refinancing of long term projects.
- Joint Lenders Forum (2014)

  It is done to avoid a situation where a loan is taken from one bank to repay the loans in other banks
- Mission Indradhanush (2015)

  It is the most comprehensive reform undertaken to improve the functioning of the PSBs, by using the ABCDEFG formula. A- Appointment, B- Bank Board Bureau, C- Capitalisation, D- Destressing PSBs, E- Empowerment, F- Framework of accountability, G- Governance reforms in PSBs

Some additional remedial measures are suggested to control the NPAs as follows: -

- A thorough and consistent follow-up with the clients is required, and any financial diversion must be monitored. One can start this process on a regular basis.
- Several in-person meetings following the approval and issuance of credit, as well as careful observation of the borrowing units' accounts' daily activities.
- Banks must decide how quickly to file lawsuits and how best to handle matters that have been filed and decreed.
- Frequent discussions with the staff in the branch and taking their suggestions for recovery of NPAs make them feel responsible
- Lending to the priority sector has a higher risk and a lower return. Thus, it is necessary to redefine the net bank credit priority sector lending benchmark.
- The RBI must take the appropriate measures to deal with defaulters, such as releasing the names of defaulters in newspapers and other media outlets, as this will benefit other financial institutions and banks.
- Good credit appraisal and performance evaluation methods should be adopted.
- When granting an export-related loan, banks are required to verify the company's legitimacy with export houses.

Findings of the study-

- The following research paper studies the trend of the gross & net NPAs from 2016 to 2022.
- It is observed that both gross & net NPAs have been declining over the years.
- The percent of gross & net NPAs in the PSBs is more comparatively to PvBs.
- IOB has the highest percentage of gross & net NPAs from 2016 to 2020 & PNB for the years 2021, and 2022.

- While ICICI in the PvBs has the highest amount of gross & net NPAs from 2016 to 2022.
- Comparing the last 7 years (2016 to 2022), in the year 2018 PSBs had the highest percentage of NPAs i.e. 16.51%.
- In both sectors, non-priority has maximum contribution.
- The prime cause of higher NPAs in PSBs can be they have liberal credit policies and loose terms and conditions for loans and advances. They also have deficiencies in the credit sanctions and disbursements of loans.
- PSBs use poor recovery and coercion techniques to recover loans. Also, they have poor monitoring & poor banking management. Hence, this can be a cause for higher NPAs in PSBs.

Suggestions for reducing NPAs-

- Effective use of early warning systems as the monitoring mechanism by the banks to proactively detect and resolve issues related to the credit risk of the borrower. For the resolution of NPAs, an end-to-end NPA lifecycle management can also help.
- Prepare a loan recovery policy and strategies for reducing NPAs.
- Create special recovery cells as head office/Zonal office/ regional office levels identify critical branches for recovery
- Introduce a mechanism to identify the hidden NPAs.
- Monitor the implementation of the time-bound action plan
- Carry out forensic audits to understand the intent of the borrower.

Conclusion-

To sum up, Indian banks have always been quite concerned about non-performing assets (NPAs). The banks are not the only ones affected; the economy suffers as a result. The money held in non-performing assets (NPAs) is not available for productive use, and banks' profitability is negatively impacted. PSBs have a larger level of non-performing assets (NPA) than PvBs. Scheduled NPAs will increase profitability and efficiency. Only with appropriate credit assessment and risk management techniques can the NPA problem be solved. The banking system's eagerness to expand lending during a liquidity overhang could jeopardise the quality of the assets, prompting worries about their unfavourable selection and possible risk of addition to the stock

The government has implemented a number of initiatives to lower the NPAs. As a result, there is now less non-performing assets (NPAs) in the Indian banking industry. However, much more work has to be done. Our banks' non-performing assets (NPAs) remain elevated in relation to global norms. To have zero percent NPAs is quite unlikely. To preserve international standards, Indian banks can, at the very least, attempt to compete with global banks. It is impossible to deny that the banks' bad loan writing contributed to a portion of the decline in non-performing assets. Since prevention is always preferable to treatment, Indian banks should take care to make sure that they only lend money to clients who are creditworthy. NPAs should be avoided.

Word Index

- Non-performing Assets
- RBI-Reserve Bank of India
- PSBs- Public sector Banks

- PvBs- Private Sector Banks
- IOB- Indian Overseas Bank
- UBI- Union Bank of India
- SBI- State Bank of India
- PNB- Punjab National Bank
- BOB- Bank of Baroda
- GOI- Government of India
- ROA- Return of Assets
- EVA- Economic Value Added
- SMA- Special Mention Accounts

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