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A Comparative Study on NPAS in Public Sector and Private Sector Banks in India

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Abstract:
Indian Banking Sector is extremely critical for the economic development of the country. The last decade witnessed unprecedented growth and value creation in India's banking sector with little impact from the global financial crisis due to strong regulation and discipline. However, the scenario is now changing due to various reasons. Tightening of monetary policy, a burgeoning fiscal and current account deficit, the need for increased infrastructure lending, de-regulation of interest rates on savings accounts, etc. have diluted the robust performance of Banks in comparison to other sectors. A direct result of this has been an increase in non – Performing assets (NPAs) of Banks. Hence this paper makes an attempt to identify the trend in NPAs of public sector and private sector banks in India.

1. Introduction
Non Performing Assets (NPA‟s) are one of the major areas of concern for the Indian banking industry. Non-Performing Assets are like a double edged sword. They do not generate any income, whereas, the bank is required to make provisions such as assets. They do not just reflect badly in a bank's account books; they adversely impact the national economy. These assets had been the single largest cause of frustration of the banking sector of India. Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of a few non-performing assets (NPA) is an important one.

2. Research Problem
Prevalence of Non-Performing Assets is the major threat for Banking sector. The present study aimed to examine the performance of NPAs in selected Banks and observe the trends of NPAs during the study period 2009-2010-11-2012-13 to 2014-15-2015 and suggest the various measures to reduce NPAs of the public sector Banks in India.

3. Review of Literature
Smita Ramakrishna1 and Reeba Kurian compared foreign Banks and public sector Banks with reference to no-performing assets. This paper studies the core parameters in this context which are Gross Advances, Gross Non-performing assets, Net Advances and Net Non-performing assets.
P. MALYADRI, S. SIRISHA evaluated the Asset Quality and Non-Performing Assets of Indian Commercial Banks. This paper analyzed the trends in non-performing assets of Indian Scheduled Commercial Banks and analyses the comparison of public sector Banks, private sector Banks and foreign Banks. The growth of NPAs along with its components has been tested with the help of compound annual growth rate (Cagr). The study showed that the public sector Banks have higher levels of NPAs in comparison to private and foreign Banks.
Seema Gavade-Khompi, compared trend analysis of non-performing assets of commercial Banks in India. The study focuses on the comparative analysis of NPAs within the Scheduled Commercial Banks in India. The trend values have been calculated with the help of 'least square method' of 'time series analysis
Dr. M. Syed Ibrahim1 and Dr. Rangasamy Thangavelu studied about the Composition of Non-Performing Assets (NPAs) of Scheduled Commercial Banks in India. The study is diagnostic and exploratory in nature and makes use of secondary data. The study found that the commercial Banks have significantly improved their working performance in the areas of NPAs.
Samir, Deepa Kamraanalyzed of Non- Performing Assets (NPAs) of Selected Commercial Banks in India. This paper analyses the position of NPAs in selected Banks and also highlights the policies pursued by the Banks to tackle the NPAs and suggests a multi-pronged strategy for speedy recovery of NPAs in Banking sector.

3.1. Objectives
- To examine the performance of Banks with respect to NPAs
- To study the trends of NPAs in Banks
- To suggest the various measures to reduce NPAs of the Banks.

4. Methodology

Data has been collected from the public sector Banks and private sector Banks for the period from 2010-11 to 2014-15 from the Reserve Bank of India Website. Ratio Analysis is used to analyze the trend of NPAs of Public sector Banks and Private sector Banks over the five-year period i.e. from 2009-10 to 2014-15-15. The basis for studying trend of NPAs --
- Gross NPAs Ratio= GrossNPAs/ Gross Advances
- NET NPAS Ratio = Net NPAs/ Net Advances
- GROSS TOTAL Asset Ratio= GrossNPAs/ Total Assets
- NET Total Asset Ratio= Net NPAs/ Total Assets

5. Analysis

5.1. Non-Performing Assets of Public Sector Banks

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	Avg	C.V
1	SBI	3.09	3.34	4.57	4.89	5.09	0.91	4.19	21.89
2	BANK OF INDIA	2.65	2.25	2.36	3.03	3.2	0.41	2.69	15.27
3	INDIAN BANK	0.82	0.98	2.04	3.37	3.73	1.33	2.18	61.08
4	CANARA BANK	1.4	1.45	1.73	2.58	2.51	0.57	1.93	29.59
5	BANK OF BARODA	1.37	1.36	1.53	2.4	2.94	0.71	1.92	37.18

Table 1: Gross NPAs to Gross Advances of Public Sector Banks

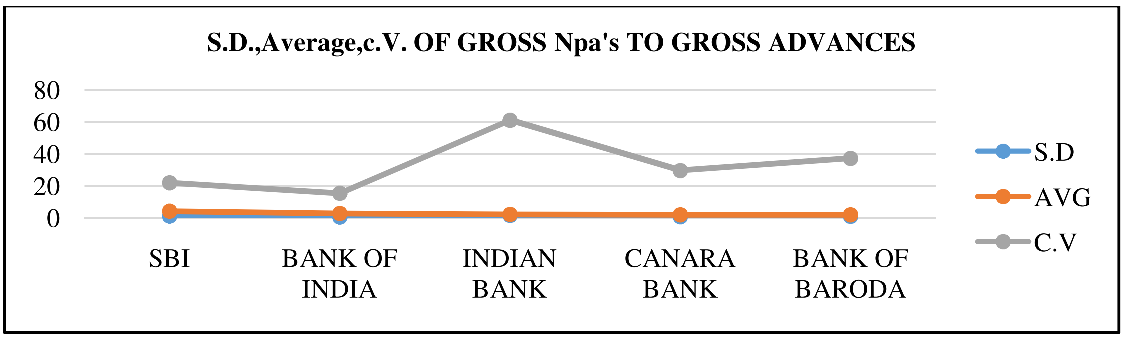

Figure 1: Gross NPAs to Gross Advances of Public Sector Banks

It is clear from the above coefficient of variation, Gross NPAs ratio of Indian Bank showed larger variability with a highest coefficient of variation of 61%. While Bank of India and SBI showed least variability with 15.27%and 21.89%.SBI recorded a highest mean value and Canara Bank and Bank of Baroda recorded the lowest mean values. The S.D. values shows that Indian Bank and SBI are exposed to high risk in maintaining Gross NPAs'

S. no	Name	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	SBI	1.97	1.89	2.01	2.31	2.79	0.36	2.19	16.82
2	BANK OF INDIA	1.31	0.97	1.55	2.14	2.1	0.50	1.64	31.35
3	INDIAN BANK	0.25	0.55	1.4	2.39	2.38	0.99	1.39	71.60
4	CANARA BANK	1.06	1.14	1.51	2.28	2.08	0.55	1.61	33.98
5	BANK OF BARODA	0.36	0.35	0.54	1.28	1.52	0.55	0.81	67.95

Table 2: Net NPAs to Net Advances of Public Sector Banks

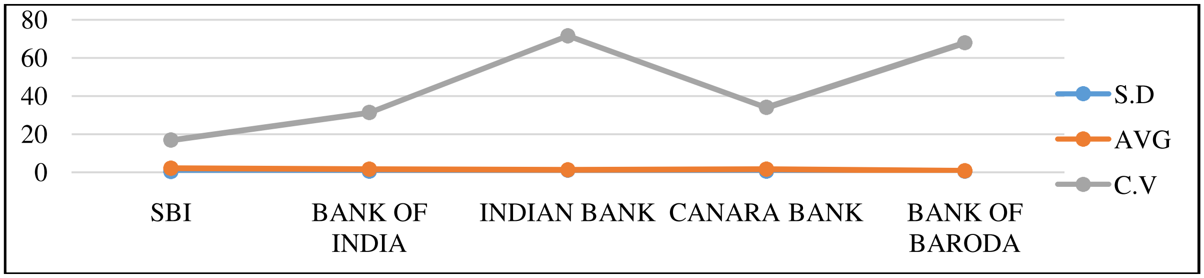

Figure 2: Net NPAs to Net Advances of Public Sector Banks

The mean values for the Net NPAs to net advances from the above table shows that SBI has highest mean value Bank of Baroda has lowest value. SBI has highest Net NPAs compared to the other Banks in public sector. It is also clear from the coefficient of variation calculated in the table given above that the Net NPAs ratio of Indian Bank shows larger variability with coefficient of variation of 71.60%. While Bank of India and State Bank of India showed least variability with 31.351%and 16.82%.

S. No	Name	2010-11	2011-12	2012-13	2013-14	2014-15	Sd	Avg	Cv
1	SBI	1.85	2.07	2.97	3.26	3.43	0.713	2.716	26.277
2	BAN OF INDIA	1.63	1.37	1.53	1.93	2.07	0.288	1.706	16.895
3	INDIAN BANK	0.51	0.61	1.32	2.19	2.43	0.881	1.412	62.416
4	CANARA BANK	0.9	0.92	1.08	1.52	1.54	0.316	1.192	26.545
5	BANKOF BARODA	0.86	0.88	0.99	1.45	1.85	0.432	1.206	35.831

Table 3: Gross NPAs to Total Assets of Public Sector Banks

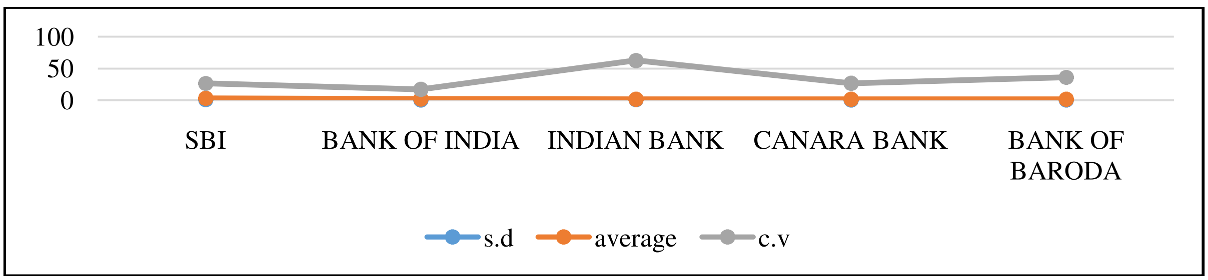

Figure 3: Gross NPAs to Total Assets of Public Sector Banks

From the above calculated mean values, SBI has highest Gross NPAs to Total Assets whereas all other selected Banks are having similar mean values in this aspect. It is clear from the coefficient of variation calculated in the Table given above that the gross total asset ratio of Indian Bank shows larger variability with coefficient of variation of 62.41%. While Bank of India and State Bank of India showed least variability with 16.89%and 26.27% The Standard Deviation also provides the same picture that Indian Bank in high risk Zone compared to other Banks.

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	SBI	1.03	1	1.18	1.4	1.73	0.30	1.26	23.89
2	BANK OF INDIA	7.65	0.55	0.95	1.31	1.21	2.98	2.33	127.9
3	INDIAN BANK	0.14	0.32	0.85	1.46	1.47	0.62	0.84	73.20
4	CANARA BANK	0.65	0.7	0.91	0.12	1.21	0.40	0.71	55.77
5	BANK OF BARODA	0.21	0.2	0.34	0.76	0.94	0.33	0.49	69.23

Table 4: Net NPAs to Total Assets of Public Sector Banks

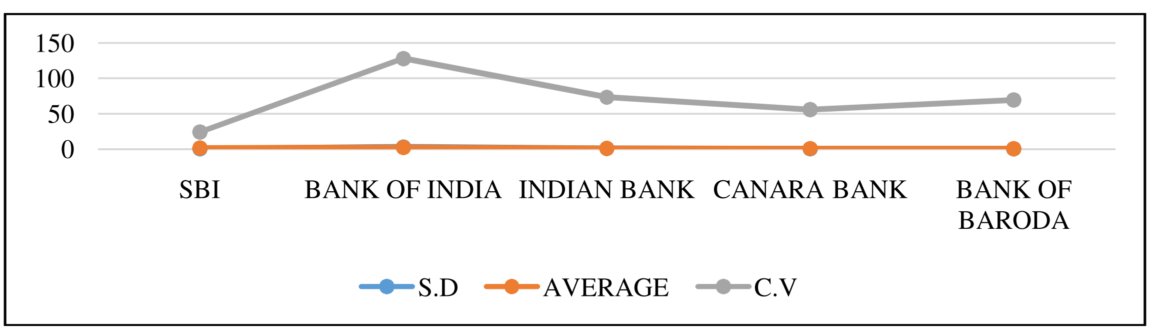

Figure 4: Net NPAs to Total Assets of Public Sector Banks

From the above calculated mean values, Bank of India has highest Gross NPAs to total assets whereas all other selected Banks are having similar mean values in this aspect. As cleared from the coefficient of variation calculated in the table given above that the gross total asset ratio of Bank of India Bank showed larger variability with coefficient of variation of 127.94%. While SBI and Canara Bank showed least variability with 23.89%and 55.77% the standard deviation also provides the same picture that Bank of India in high risk zone compared to other Bank.

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	ICICI BANK	5.11	4.63	3.73	3.31	3.1	0.86	3.97	21.72
2	HDFC BANK	1.43	1.05	1.02	0.97	0.98	0.19	1.09	17.68
3	YES BANK	0.27	0.23	0.22	0.2	0.31	0.04	0.24	17.85
4	INDUSIND BANK	1.08	1.02	0.98	1.03	1.12	0.05	1.04	5.21
5	ING VYSYA BANK	1.21	2.34	1.95	1.79	1.77	0.40	1.81	22.45

Table 5: Gross NPAs to Gross Advances of Public Sector Banks

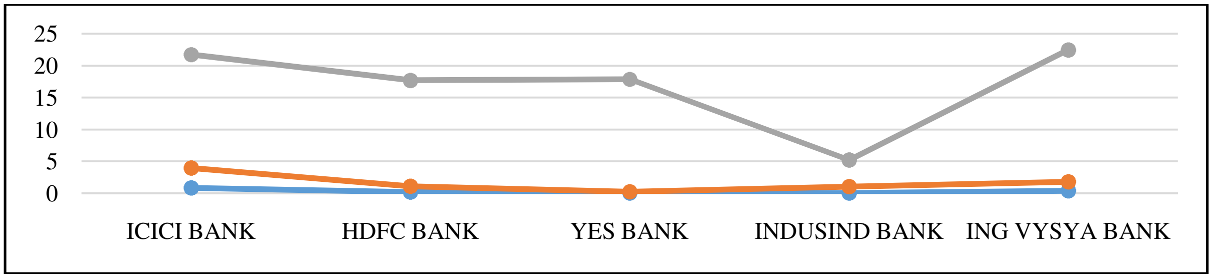

Figure 5: Gross NPAs To Gross Advances of Private Sector Banks

The mean values for the Gross NPAs to gross advances from the above table show that ICICI has highest mean value and yes Bank has lowest value. ICICI has highest Gross NPAs compared to the other Banks in private sector. It is also clear from the coefficient of variation calculated in the table given above that the Gross NPAs ratio of Ing Vysya Bank showed larger variability with coefficient of variation of 22.45%. While HDFC Bank and Indus Ind Bank showed least variability with 17.68%and the interpretation 5.21%.

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	ICICI BANK	1.25	1.2	0.84	0.86	1.08	0.18	1.05	18.11
2	HDFC BANK	0.22	0.22	0.22	0.22	0.31	0.04	0.24	16.91
3	YES BANK	0.06	0.03	0.05	0.01	0.06	0.02	0.04	51.61
4	INDUSIND BANK	0.31	0.29	0.28	0.32	0.33	0.02	0.30	6.77
5	ING VYSYA BANK	1.2	0.42	0.19	0.3	0.28	0.41	0.47	86.16

Table 6: Net NPAs to Net Advances of Private Sector Banks

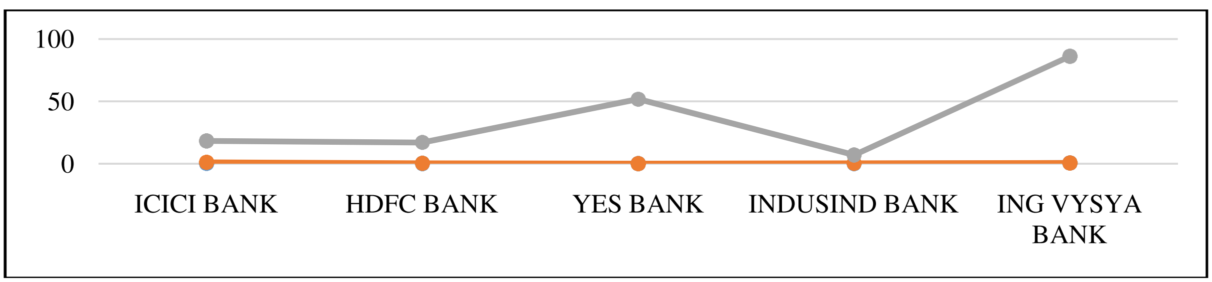

Figure 6: Net NPAs to Net Advances of Private Sector Banks

The mean values for the Net NPAs to net advances from the above table shows that ICICI has highest mean value and Yes Bank has lowest value. ICICI has highest Net NPAs compared to the other Banks in private sector. It is also clear from the coefficient of variation calculated in the table given above that the Net NPAs ratio of Ing Vysya Bank shows larger variability with coefficient of variation of 86.16%, While HDFC Bank and Indus Ind Bank shows least variability with 16.91%and 6.77%.

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	ICICI BANK	2.55	2.47	1.93	1.79	1.76	0.38	2.1	18.1
2	HDFC BANK	0.81	0.61	0.06	0.58	0.68	0.28	0.54	52.3
3	YES BANK	0.16	13.64	0.11	9.52	0.16	6.43	4.71	136.
4	INDUSIND BANK	0.61	0.58	0.6	0.62	0.71	0.05	0.62	8.06
5	ING VYSYA BANK	0.66	1.42	1.2	1.04	1.04	0.278	1.07	25.9

Table 7: Gross NPAs to Total Assets of Private Sector Banks

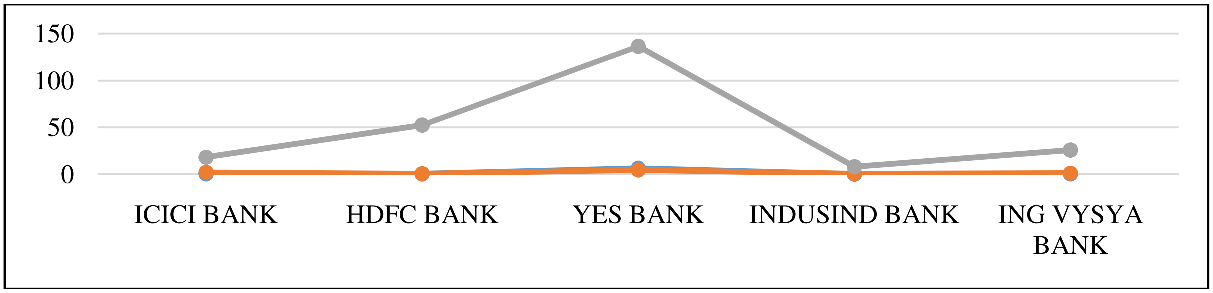

Figure 7: Gross NPAs to Total Assets of Private Sector Banks

From the above calculated mean values, yes Bank has highest Gross NPAs to total assets whereas all other selected Banks are having similar mean values in this aspect. It is clear from the coefficient of variation that the gross total asset ratio of Yes Bank shows larger variability with coefficient of variation of 136.31%. While ICICI Bank and Indus Ind Bank shows least variability with 18.13%and 8.06% the standard deviation also provides the same picture that yes Bank in high risk zone compared to other Banks.

S.NO	NAME	2010-11	2011-12	2012-13	2013-14	2014-15	S.D	AVG	C.V
1	ICICI BANK	0.57	0.59	0.38	0.41	0.55	0.09	0.5	19.49
2	HDFC BANK	0.1	0.11	0.1	0.12	0.16	0.02	0.1	21.10
3	YES BANK	0.03	1.55	0.02	7.05	0.02	3.04	1.7	175.5
4	INDUSIND BANK	0.17	0.16	0.16	0.18	0.21	0.02	0.1	11.78
5	ING VYSYA BANK	0.58	0.23	0.11	0.16	0.16	0.19	0.2	76.79

Table 8: Net NPAs to Total Assets of Private Sector Banks

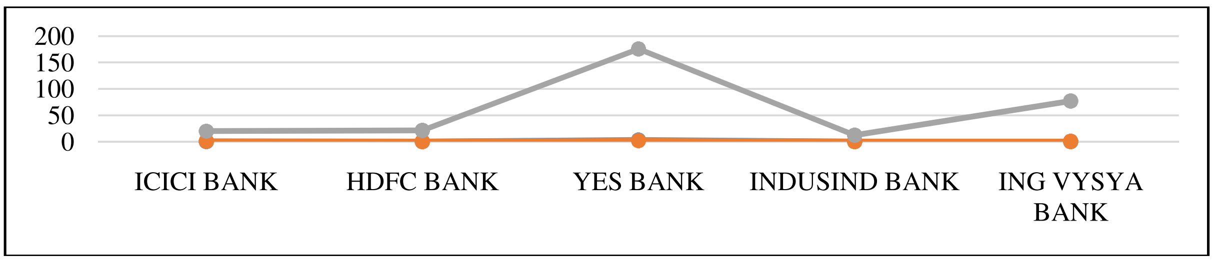

Figure 8: Net NPAs to Total Assets of Private Sector Banks

From the above calculated mean values, yes Bank has highest Net NPAs to total assets. Coefficient of variation shows that Net NPAs to total asset ratio of yes Bank shows larger variability with coefficient of variation of 175.56%, while ICICI Bank and Indus Ind Bank shows least variability with 19.49%and 11.78%. The standard deviation also provides the same picture that Yes Bank is in high risk zone compared to other Banks.

5.2. Findings

- There is increase in the advances over the period of time.
- Gross NPAs/ Gross Advances are very high in SBI whereas Canara Bank and Bank of Baroda have low Gross NPAs to Gross Advances in public sector Banks. In private sector, Gross NPAs to gross advances are declined during the study period.
- Net NPAs to net advances also increased during the entire study period in public sector Banks.
- In private sector Ing Vysya Bank had the highest CV which shows its vulnerability in Net NPAs to net advances.
- Gross NPAs to total assets ratio also increased year by year during the entire study period in public sector Banks. Whereas in private sector, it declined from 2012-13 to 2014-15.
- The decline in Net NPAs to total assets reflecting reduction on the quantity of risky assets in total assets which may not generate income for the Bank.

5.3. Suggestions

- Quick identification of NPAs, their maintenance at a minimum level are to be observed by every bank to reduce the negative impact of NPAs on firm's efficiency.
- Evaluation and assessment of the proposal is required before sanctioning a loan.
- Banks should monitor and evaluate the utilization of disbursed loans.
- They need to put their efforts on timely collection of loans.
- Indian Banks need to follow better credit culture for sanctioning loans
- Banks have to exploit the favorable macroeconomic conditions of the economy and business conditions which can lower NPAs.

5.4. Conclusion

In the present study, it is observed that there is an increase in advances over the period of 2009-2010-11-2012-13 to 2013-14-2014-15. The decline in the ratio of NPAs in the selected Banks of private sector indicates that improvement in the asset quality of private sector Banks. As the Net NPAs to net advances has reduced over the study period, it gives positive indication of reduction in risky assets in private sector Banks. GrossNPAs to total assets has direct bearing on return on assets as well as liquidity and risk management of the Bank. As this ratio has declined in private sector Banks, the liquidity position of Banks has improved. Similarly, Net NPAs to total assets have decreased reflecting the reduction on the quantity of risky assets in total assets of the Bank, which are not expecting to generate income for the Bank. In public sector the NPA levels are increasing during the study period compared to private sector. Loans given to mining, power and realty companies might become NPAs for the Banks in public sector due to the delay in completion of such projects. Moreover, Indian Banks face challenges like increase in interest rates on saving deposits, a tighter monetary policy, restructured loan accounts and increasing infrastructure loans. The public sector Banks are also under pressure from loans outgoes to the sectors facing inordinate delays in execution of projects, raising concerns over the companies' ability to repay loans on time. Hence Banks need to follow a better credit policy which minimizes NPAs

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