



A Comparative Study of Non-Performing Assets of Private Sector Bank & Public Sector Bank in India

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Introduction:

Due to the development in technology like computer, Internet, satellite services, etc... bank can provide different type of services and products to his customer, that way today's banks are developed in really mean, but also in that scenario Loan & Advances and Deposits are two prime products of today's banking industry. On this statement, we can say, business cycle of bank is depends on assets quality and productivity of deposits.

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. In the starting when the financial reforms were undertaken by the Government of India based on the Narasimham Committee report I and II, Reserve Bank of India introduced some prudential norms to address the credit monitoring policy, which were being pursued by the banks and other NBFCs. To strengthen the recovery of loans and dues by the banks and the other financial institutions, Government of India in the year 1993, promulgated the "Recovery of Debts due to Banks and other Financial Institutions Act" and "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act" in the year 2002. But amount of Non-Performing Assets is ever increasing day by day, and the said act, which was introduced by the Government of India, is not serving the purpose, they were actually formed. The reason behind it can be the bank's approach and attitude towards financing and recovery of loans especially from the large enterprises in steel, power, infrastructure & textile sector and also the lack of knowledge about the law.

Meaning of Non-Performing Asset (NPA):

An asset which ceases to generate income for the bank is called as performing asset. Non-performing assets are those when loan given by a bank or financial institution and the borrower delays in payment of interest or principle amount within stipulated period. The stipulated period was reduced in a phased manner as under.

Year ended March, 31	Specific Period
1993	4 quarters
1994	3 quarters
1995	2 quarters

An amount is considered as past due, when it remains outstanding for 30 days beyond the due date. However, with effect from March 31, 2001 the 'past due' concept has been dispensed with and the period is reckoned from the due date of payment.

With a view to moving towards international best practices and to ensure greater transparency, '90 days' overdue norms for identification of NPAs have been made applicable



from the year ended March 31, 2004. As such, with effect from March 31, 2004, a non-performing asset shall be a loan or an advance where:

- ◆ Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a Term Loan. (Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.)
- ◆ 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.
- ◆ The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops.
- ◆ The installment of principal or interest thereon remains overdue for one crop season for long duration crops.
- ◆ The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- ◆ In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

Classification of Assets:

As per the revised norms, all assets (loans & advances) should be classified into four board groups as under.

a) Standard Assets: Standard assets are those which are not non-performing assets. In other words, these are regular and performing and these are no adverse feature. They do not disclose any credit problem.

b) Sub-standard Assets: With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

c) Doubtful Assets: With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.



d) 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.

Provisioning for Loans and Advances:

The provisioning requirements for various classes of assets are given below.

Sr. No.	Name of Assets	Provisioning Requirement
I	Standard Assets	i) Farm Credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent; ii) Advances to Commercial Real Estate (CRE) Sector at 1.00 per cent; iii) Advances to Commercial Real Estate – Residential Housing Sector (CRE - RH) at 0.75 per cent; iv) All other loans and advances not included in (a) (b) and (c) above at 0.40 per cent.
II	Sub-standard Assets	i) A general provision of 15% on the total outstanding. ii) Additional provision of 10% for exposures which are unsecured lease exposure (i.e. where realizable value of security is not more than 10 percent lease exposure). iii) Unsecured Exposure in respect of infrastructure loan accounts where certain safeguards such as escrow accounts are available - 20%.
III	Doubtful Assets:	
	Secured portion	i. Up to one year – 25%
		ii. One to three years – 40%
Unsecured Portion	iii. More than three years – 100%	
IV	Loss Assets	100%

Computation Table of Non-Performing Assets

Sr. No.	Particulars	Amount
a	Gross Advances	xxx
b	Gross NPA Amount	xx
c	Gross NPA as a percentage of Gross Advance (b)/(a) *100	xx %
d	Deductions	
	i) Balance in interest & suspense account	x
	ii) DICGC/ECGC/claims received and held pending adjustment	x
	iii) Part payment of NPA account received & kept in suspense account	x
	Total Deduction (i) + (ii) + (iii)	xx
e	Total NPA provisions held (BDDR special BDDR balance after appropriation)	xx
f	Net advance Amount (a) - (d) - (e)	xx
g	Net NPAs Amount (b) - (d) - (e)	x
h	Net NPAs as percentage of net Advances (g)*100/(f)	x %



Review of Literature:

Dhiraj Jain & Nasreen Sheikh (2012): With the help of secondary data, the author in the present paper has tried to show the movement of NPA, Loans and Net Profit of the private banking industry by analyzing the data from the year 2007 to 2011.

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.

Neha Garg (2016): Through this paper, an effort has been made by author to evaluate the operational performance of the selected Public Sector Banks & Private banks in India and also analyzed how efficiently Public and Private sector banks can manage NPA. The study also concluded that, the magnitude of NPA was comparatively higher in public sectors banks as compared to private banks in the beginning years under study and now also, they have not managed the number at lower end.

Nitin Gupta & Dr. (Miss) Kesari (2016): Conducted a comparative study to measure the trend in NPAs and sector wise distribution of NPAs in selected public and private sector banks. Data collected from various secondary sources for the period of ten years was analysed using descriptive analyses. Author recommended that to especially public sector banks need to strengthen its recovery channels (SARFAESI Act, DRTs and Lok Adalats) to reduce the deterioration of asset quality. Some latest measures taken by RBI, like initiation of "Indradhanush" reforms in year 2015 is one of the biggest measures taken by RBI and Central government to curb the rising level of NPAs. Private sector banks on the other hand also need to be cautious from the rising trend of NPAs seen in some previous years.

Rajeshwari Parmar (2014): The study analysed the trend of Total Advances, Gross NPA, Net NPA & Net profit of SBI and ICICI Bank. The study noticed that, SBI had shown positive relationship between Net Profit and Net NPA but negative relationship had been found in ICICI Bank.

Satpal (2014): In this paper the author has analysed concept of Non Performing Asset, contribution factor of NPA, reasons of high level of NPA and their impact on Indian banking operations.

Stuti, Bansal, S. (2013): In this paper, an effort has been made to evaluate the operational performance of the Public Sector Banks and Private sector bank in India with the help of secondary data between 2003-04 and 2007-09, on NPAs Trends and issues. This paper analyzes how efficiently Public and Private sector banks have been managing NPA.

Sulagna Das & Abhijit Datta (2014): In this current paper with the help of secondary data, from RBI website, tried to analyse the 6 years, (2008-2013) net non-performing asset data of 26 public sector banks, by using Anova Statistics, and with the help of SPSS software. The main objective of the study was to find out if there are any significant differences in the mean variation of the concerned banks. This paper also focuses on the reason behind the NPA and its impact on banking operations.

Vaibhavi Shah & Sunil Sharma (2016): The study was made on ICICI Bank and HDFC Bank, the study tried to analyze the reasons for an account become NPA, factor for rise in NPAs.



Vivek Rajbahadur Singh (2016): An attempt has made in his paper to understand NPA, the status and trend of NPAs in Indian scheduled commercial banks, the factors contributing to NPAs, reasons for high impact of NPAs on scheduled commercial banks in India and recovery of NPAs through various channels.

Gap in Research:

From the above literature review and as per my best knowledge, it was found that there no study has been conducted from the period of 2008-09 to 2017-18 in context of the objective stated earlier in the study. So the present comparative study of Loans & Advances, Gross NPAs, Net NPA, etc... of SBI & ICICI Bank Ltd. was not depicted by the above researchers.

Statement of the Problem:

The Gross NPA of banking sector rose from 10.20 per cent of gross advances in September 2017 to 11.05 per cent in March 2018 and Stressed Advances Ratio of Indian Banking sector was also increased from last few years, as per the Financial Stability Report-December 2017 and 2018 by RBI. This indicator is harmful for Indian economic in general and banking industry in particulars. In this situation, it is a need to appraisal of NPAs movement in Public Sector Banks and Private Sector Banks.

Objective of the Study:

The study aims to gain insights into the position of Non-Performing Assets of selected banks. The following broad objectives are laid down for the purpose of the study:

- 1) To study NPA trend in last 10 years of SBI and ICICI Bank.
- 2) To make a comparative study of NPA's of SBI and ICICI Bank.
- 3) To investigate the impact of NPA on profitability of SBI and ICICI Bank.

Scope of the Study:

The scope of the study is in between the period of 2008-09 to 2017-18 of State Bank of India and ICICI Bank Ltd.

Research Methodology:

Research design used to carry out this research paper is descriptive & analytical 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. State Bank of India and ICICI Bank Ltd. are the top most banks in their sector, that's way these banks have selected for study by purposive sampling method. Secondary data is collected mainly from the sources available on internet like the RBI website & other websites of concern banks, Journals, Books etc.

Data is presented with the help of SPSS Software, Graphs, charts and tables etc.

Hypothesis of the Study:

H_0 there is significant difference between net NPA ratios of selected banks.

H_1 there is no significant difference between net NPA ratios of selected banks.

Data Analysis:

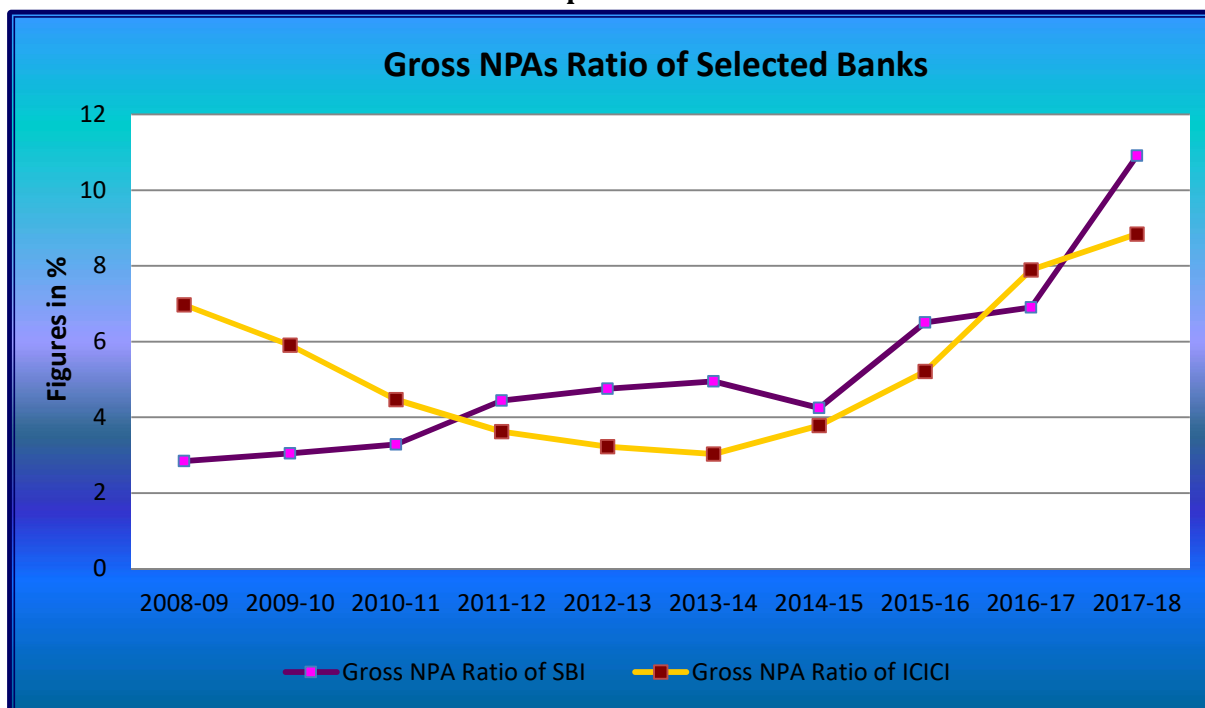
Comparative analysis of Advances in Selected Bank:

Table No.01
Gross NPA Ratio of Selected Banks (Figures in %)

Sr. No.	year	SBI		ICICI Bank Ltd.	
		Gross NPA Ratio	Annual Growth Rate	Gross NPA Ratio	Annual Growth Rate
1	2008-09	2.84		6.97	
2	2009-10	3.05	7.39	5.9	-15.35
3	2010-11	3.28	7.54	4.47	-24.24
4	2011-12	4.44	35.37	3.62	-19.02
5	2012-13	4.75	6.98	3.22	-11.05
6	2013-14	4.95	4.21	3.03	-5.90
7	2014-15	4.25	-14.14	3.78	24.75
8	2015-16	6.5	52.94	5.21	37.83
9	2016-17	6.9	6.15	7.89	51.44
10	2017-18	10.91	67.85	8.84	69.67
	Mean	5.19		5.29	

Source: Website of particular Banks & www.moneycontrol.com

Graph No. 01



The above Table & Chart No. 01 depicts the percentage of Gross Non-performing Assets (Gross NPA) of State Bank of India & ICICI Bank Ltd. Gross NPA Ratio of selected banks was

oscillated during the study period. Year wise gross NPA ratio of both banks was showing different, but there was no major differences sees in average of them (SBI 5.19, ICICI Bank 5.29).It was a range of gross NPA ratio of 2.84 percent to 10.91 percent and 3.03 percent to 8.84 percent of SBI and ICICI Bank respectively. Growth of nonperforming assets of State Bank of India (3.84 times) was much higher than ICICI Bank (1.27 times).

Net NPAs Ratio of Selected Banks:

Table No. 02
Net NPAs Ratio of SBI and ICICI Bank

Sr. No.	year	SBI		ICICI Bank	
		Net NPA Ratio	Annual Growth Rate	Net NPA Ratio	Annual Growth Rate
1	2008-09	1.76		2.09	
2	2009-10	1.72	-2.27	2.12	1.44
3	2010-11	1.63	-5.23	1.11	-47.64
4	2011-12	1.82	11.66	0.73	-34.23
5	2012-13	2.1	15.38	0.77	5.48
6	2013-14	2.57	22.38	0.97	25.97
7	2014-15	2.12	-17.51	1.61	65.98
8	2015-16	3.81	79.72	2.67	65.84
9	2016-17	3.71	-2.62	4.89	83.15
10	2017-18	5.73	50.39	4.77	78.65
	Mean	2.70		2.17	

Source: Website of particular Banks & www.moneycontrol.com

Chart No. 02

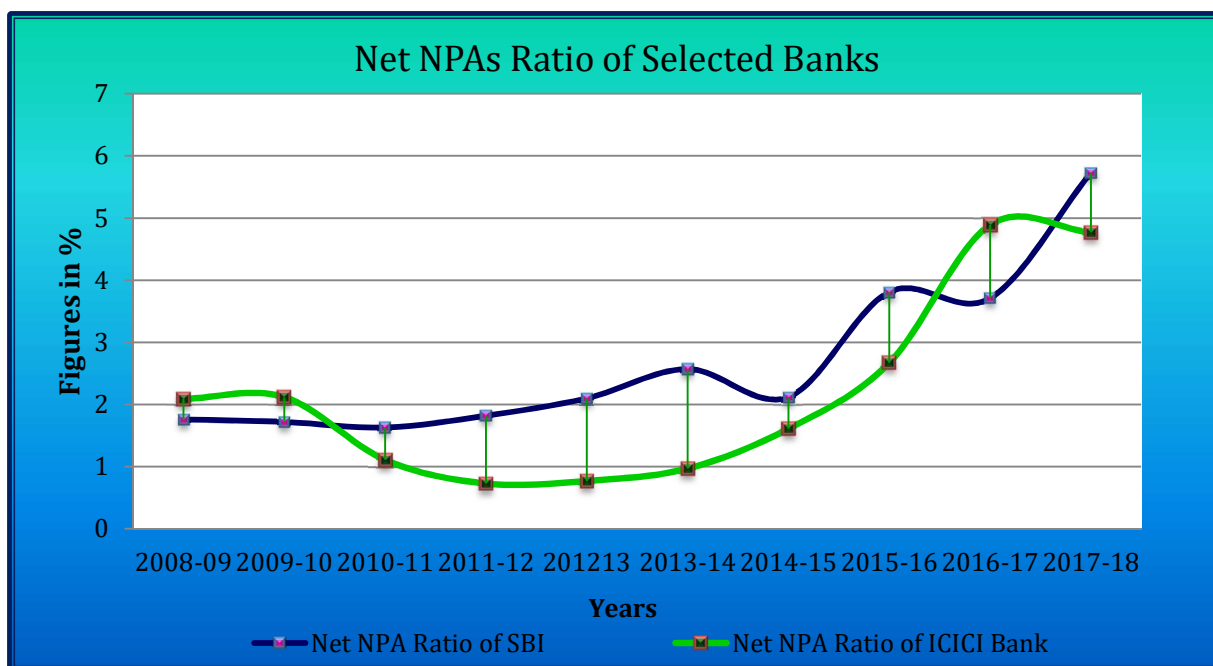


Table and Chart no. 02 shows the Net Non-Performing Assets Ratio of SBI and ICICI Bank during the ten years of study period. On an average, Net NPA Ratio of SBI (2.70 percent) was higher than ICICI (2.17 percent) Bank. During the study period four times negative annual growth rate had registered by SBI, but ICICI bank could only do this not more than twice. Higher growth seen in SBI (326 percent) as compare with ICICI Bank Ltd. (228 percent) in respect of Net NPA.

Relationship between net profit & net NPA of selected banks

There is trying to find out the relation between net profit and net nonperformance assets throw following table & graph.

Table No. 03
Relationship between Net Profit & Net NPA of ICICI Bank

Figures in Crore (₹)

Sr. No.	year	SBI		ICICI Bank	
		Net Profit	Net NPA	Net Profit	Net NPA
1	2008-09	9121.24	9552.00	4025.00	4619.00
2	2009-10	9166.05	10870.17	3758.00	3901.00
3	2010-11	8264.52	12346.89	5151.38	2407.36
4	2011-12	11707.29	15818.85	6465.26	1860.84
5	2012-13	14104.98	21956.48	8325.47	2230.56
6	2013-14	10891.17	31096.07	9810.48	3297.96
7	2014-15	13101.57	27590.58	11175.35	6255.53
8	2015-16	9950.65	55807.02	9726.29	12963.08
9	2016-17	10484.10	58277.38	9801.09	25216.81
10	2017-18	-6547.45	110854.70	6777.42	27886.27

Source: Website of particular Banks & www.moneycontrol.com

Chart No. 03
Relationship Between Net Profit & Net NPA of SBI

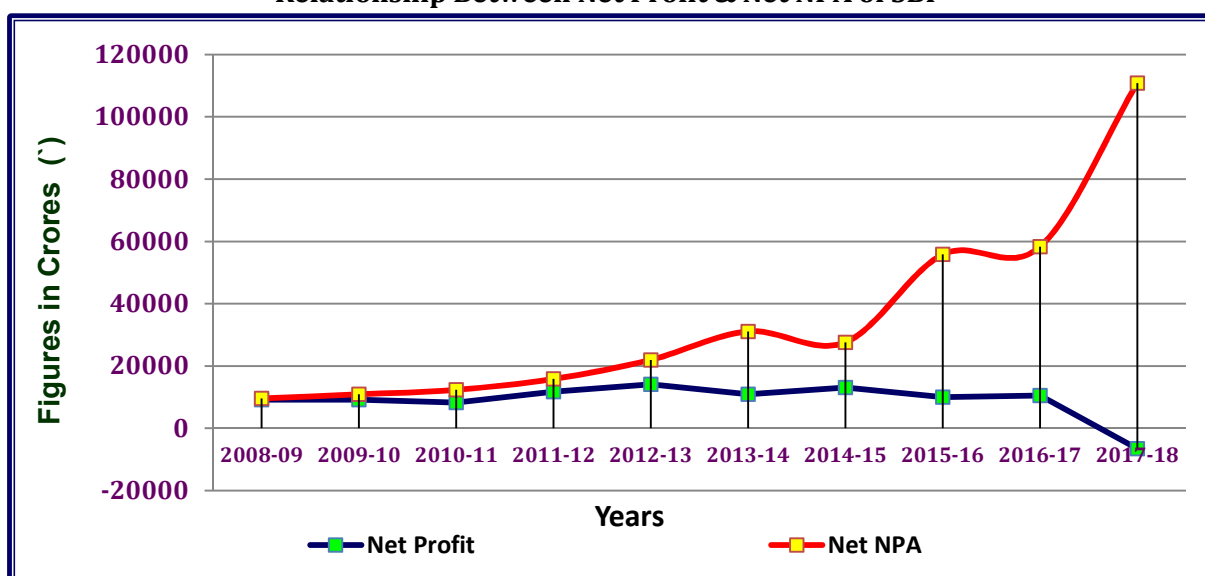


Chart No. 04
Relationship between Net Profit & Net NPA of ICICI Bank

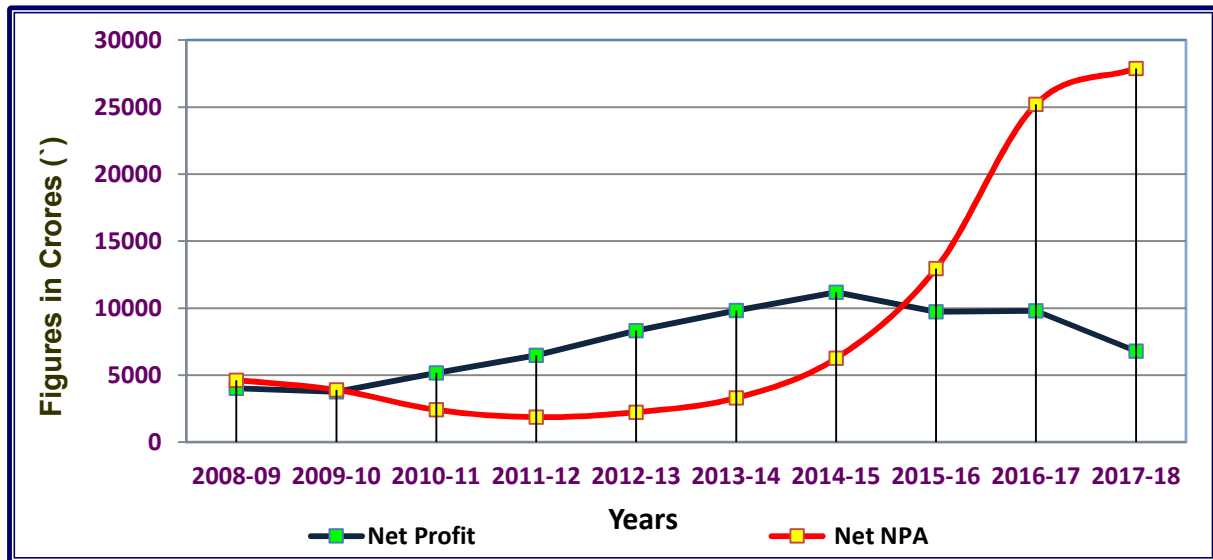


Table no.03 and Graph no.03 & 04 are showing correlation of Net Profit and Net NPA of selected banks. It can be noticed that on above graph and data, when net NPA was growing; at the same time net profit of those particular banks was declining. It means negative relationship found in Net Profit & Net NPA.

T Test Result:

For determining whether there is any significant difference between the means of Net NPA ratios of SBI Ltd. & ICICI bank Ltd., we applied Independent t test by IBM SPSS Statistics software and the results are presented in Table 04-07.

Table 04
Tests of Normality

Bank		Kolmogorov-Smirnov ^a			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
SQRT	SBI	.256	10	.062	.833	10	.036
	ICICI Bank	.156	10	.200*	.891	10	.172

a. Lilliefors Significance Correction, *. This is a lower bound of the true significance.

Table 05
Test of Homogeneity of Variance

		Levene Statistic	df1	df2	Sig.
SQRT	Based on Mean	.794	1	18	.385
	Based on Median	.981	1	18	.335
	Based on Median and with adjusted df	.981	1	17.971	.335
	Based on trimmed mean	.853	1	18	.368
	ICICI Bank	10	1.3970	.49588	.15681



Table 06
Group Statistics

	Bank	N	Mean	Std. Deviation	Std. Error Mean
SQRT	SBI	10	1.6044	.36953	.11686
	ICICI Bank	10	1.3970	.49588	.15681

Table 07
Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
				T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		F	Sig.						Lower	Upper
SQRT	Equal variances assumed	.794	.385	1.060	18	.303	.20737	.19556	-.20349	.61824
	Equal variances not assumed			1.060	16.640	.304	.20737	.19556	-.20591	.62066

The results of Independent t test highlighted the calculated values of Levene’s Test for Equality of Variance is higher than the 0.05 per cent. As per the above data we can say that, T value 1.060, df 18 and P value >0.303 at 5% level of significance.

It means there is no statistically significant difference between the mean values of NetNPA ratios of selected banks and we do not reject the null hypothesis. It signifies that there is no significant difference in performance (Net NPA) of SBI Ltd. and ICICI Bank Ltd.

Conclusion:

On basis of above data it can be conclude that, Year wise gross NPA ratio of State Bank of India and ICICI bank was showing different, but there was no major differences sees in average of them (SBI 5.19, ICICI Bank 5.29).Net NPA ratio of State Bank of India and ICICI Bank was showing fluctuate trend during the study period and as per t test outcome there was no major differences found in selected banks.As per the finding it can be noticed that, when net NPA was growing; at the same time net profit of those particular banks was declining. It means negative relationship was found in Net Profit & Net NPA of selected banks.



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