



Non-Performing Asset of Public and Private Sector Banks in India: A Descriptive Study

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ABSTRACT: In each country the banking system plays a paramount role in the development of its economy, and Indian banking sector is not exception. It will be the 5th largest banking sector by 2020 and 3rd largest sector in the year 2025. A Non Performing Asset (NPA) is a serious concern for the liquidity position of the bank. It can destroy the strong financial position of the banks and has the potential to harm the investor also. In India the private sector banks and as well as public sector banks are facing this problem. An amount of approximately Rs. 9,49,279 corers was found as the aggregate amount of gross NPA in the case of schedule commercial bank. Therefore, the current study has been conducted to understand the present condition of non-performing asset of public and private sector banks in India. The present study is a descriptive in nature and Ratio analysis used for analysis the trend of NPA. Correlation has been used for testing the hypothesis. The results of the study show that the asset quality management of public sector bank is insignificant as compared to other banks and also reveals that the financial burden on public sector banks is more as compared to private sector banks. The outcome of the study is beneficial to the banking industry to check the impact of NPA on their profitability and take corrective measures so that impact of NPA on the Profitability of the banking sector can be minimized.

Keywords: Gross NPA, Net NPA, Public Sector Bank, Private Sector Bank.

I. INTRODUCTION

After the 1991 introduction of LPG policy, the Indian banking system has received number of revolutionary changes and reforms. Before the introduction of LPG policies it was observed that banks were loaded with a vast amount of Non-Performing assets (NPA's) and it was not mentioned in their balance sheets. The banks had gone very weak. Balance sheets were hiding more than what they revealed. The objectives of liberalization policy were to remove the unnecessary regulation from the banking system and reduce much of regulations. The policy was focused of self regulation. The thought of NPAs came into the forefront as Reserve Bank of India (RBI) introduced the prudential norms on the recommendations of the Narsimham committee in the year 1992-93. However, these prudential norms were considered by RBI with statement that "An asset is considered as Non Performing if interest or installment of principal due remains unpaid for more than 90 days [5]. Economics development of the country is depends on the banking sector in a very big way. But in recent times this industry has been facing some serious threat. This is one non-performing asset. The banks have two major function lending and deposit. Accepting deposit do not involve any risk whereas lending always involves risk as the borrower might not return the amount of loan within the said time. Once an asset stops generating income for the bank it becomes a non-performing asset. The loaned out asset of the bank if returned regularly

and on time in the form of interest or principle by the customer then it is an performing asset. In contrast if the customers are unable to pay it becomes as a non-performing asset [1].

A Recent report by care rating 2017 revealed that India has been ranked 5th on the list of countries with high NPA and top BRICS nation 9.9 % ratio. Gross NPA in India expected to have a rise of RS 9.5 lakh crore by March 2018. NPA is not good and can result increasing of economy as happened in the USA in the year 2008. [1]. According to the Assocham-Crisil joint study the GNPA in Indian banks are expected to rise rupees 9.5 crores by March 2018.

According to current scenario RBI norms, any asset, which ceases to generate income for more than 90 days is considered to be NPA. Asset can be classified into four categories: i) Standard asset, which does not hold more than normal risk and makes them performing asset. ii) Substandard asset are those assets in which NPA is for a period less than or equal to 12 months. iii) If the NPA exceeds 18 months period it becomes doubtful asset. These assets are weak and the profitability of the liquidation is very high. iv) Lastly, Loss asset refers to those assets where NPA is more than 36 months [1].

Gross NPA shows the quality of the loans made by banks. It included of all the nonstandard assets like as sub-standard, doubtful, and loss assets and Net Non Performing Asset refer to the sum of the non-performing

loans less provision for bad and doubtful debts. it reflect the actual burden of the bank.

Reasons of NPA: 1 Defaulter knows the loop hall of our legal system.2. Exploitation of RBI statement policy.3. Lack of proper monitoring system.4. Lack of entrepreneurship.5. Making a wrong judgment while choosing a client.6. Loan wavering schemes by the governments.

Impact of NPA: 1 Profitability of the bank 2. Liquidity of the bank. 3. Cost of capital will goes up.4. Goodwill of bank.5. Wealth of shareholders.

II. MATERIALS AND METHODS

A. Literature Review

There is significant impact of NPA on Net Profit of selected public sector banks. Study said the NPA affect the Profitability and financial soundness of the banks and affect on profitability, which leads to reduce the lending capacity of the banks [1].In the study, it is found that the level of NPA is more in public sector bank as compare to private sector bank. They also mentioned in their study, the meaningful reasons for increasing this problem [2], [3].

NPA is directly effecting on profitability of Public Sector Bank. Study found that the NPA level is increasing trend and negative relationship between NPA and profitability of the PNB. This all happened Because of mismanagement and wrong choice of client [4].

Management of private and foreign sectors bank is more professional and expertise for making a Plan to recover the funds. Study found that the PSB bank gives compulsory lending to weaker section of society, where chance of recovery is negative [5].

There is a strong correlation of Net NPA and Net Profit in public sector and private sector banks. He also said that the compulsory lending to priority sectors is one of the problems for increasing NPA [6].

Customer also feel that social and political pressure in form of priority sector lending play a major role in increasing NPA [7]. The political interference is one of the reasons for account becoming NPA [8].

Management and Control of NPA in private sectors bank is more professional and expertise as compare to Public Sector Bank. They are making well plan sharp to recover funds from borrower [9]. The public sector banks should remain focused in Management and Control of Non Performing Assets [10]. India's banking

system is considered by the presence of increasing Non-Performing Assets (NPAs) in public sector banks. Priority sectors NPA is higher than that of the non-priority sector [11].

B. Objective of the study

To study the level of NPAs in public and private sectors bank in India, To study the relationship between the NPAs and profit of PSB and PVSB in India, To study the reasons and impact of NPAs in India and To give the valuable suggestion to grab this problem

C. Problem statement

The problem of NPA is increasing day by day. It also affects the profitability and liquidity of the banks and also harms the creditworthiness of the borrower. Due to increasing of the problem NPA management is very low of the Indian banks. This study analysis the level of NPA in public and private sectors banks and also judge the NPA management of both sectors bank. It also analyses the relationship between the NPA and Net Profit of the public and private sectors bank.

D. Sample

The study is descriptive in nature. The data has been taken in this study for last 10 years (2009-10 to 2018-19). The secondary data has been used in this study from the online sources like money control, RBI websites, Rbi reports. Ratio analyses were used to analyses the NPA. The data is presented with the help of graph, charts and table etc. Correlation used for testing the hypothesis.

E. Hypothesis Testing

H₁.There is significant relationship between Net NPA and Net Profit of Private sector bank.

H₀There is no significant relationship between Net NPA and Net Profit of Private sector bank.

H₂.There is significant relationship between Net NPA and Net Profit of Public sector bank..

H₀There is no significant relationship between Net NPA and Net Profit of Public sector bank.

F. Limitation of the study

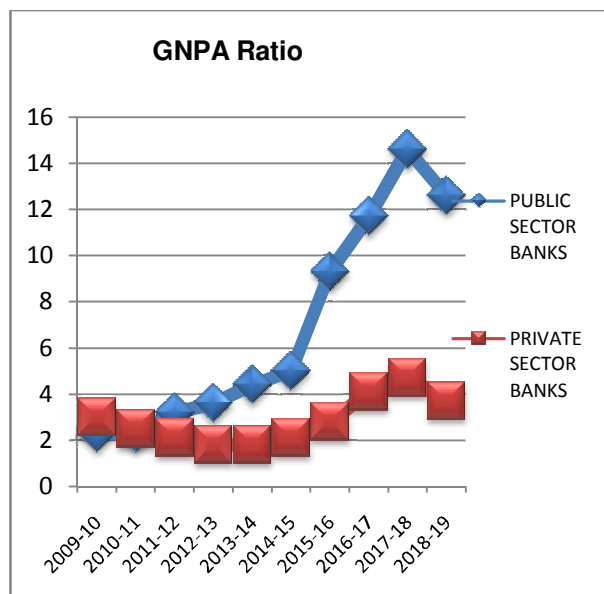
Foreign banks are not included in this study., Study cover only 10 years., NPA is changing trend every year financial result is different and Rural and cooperative banks are not included in this study.

III. RESULTS AND DISCUSSION

Table 1: NPA Ratio and Net Profit of Public sector Banks and Private sector banks.

Years	NNPA Ratio	GNPA Ratio	NET Profit	NNPA Ratio	GNPA Ratio	NET Profit
2009-2010	1.1	2.3	39256	1.0	3.0	13111.4
2010-2011	1.1	2.3	44900	0.6	2.5	17711.6
2011-2012	1.5	3.2	49513	0.5	2.1	22718
2012-2013	2.0	3.6	50582	0.5	1.8	28995.4
2013-2014	2.6	4.4	37018	0.7	1.8	33754.1
2014-2015	2.9	5.0	37540	0.9	2.1	38734.7
2015-2016	5.7	9.3	-17992	1.4	2.8	41313.72
2016-2017	6.9	11.7	-11388	2.2	4.1	42247
2017-2018	8.0	14.6	-85371	2.4	4.7	41879
2018-2019	5.2	12.6	-66608	1.6	3.7	27621

A. GNPA Ratio of Public Sector Bank (PSB) and Private Sector Bank (PVSB)



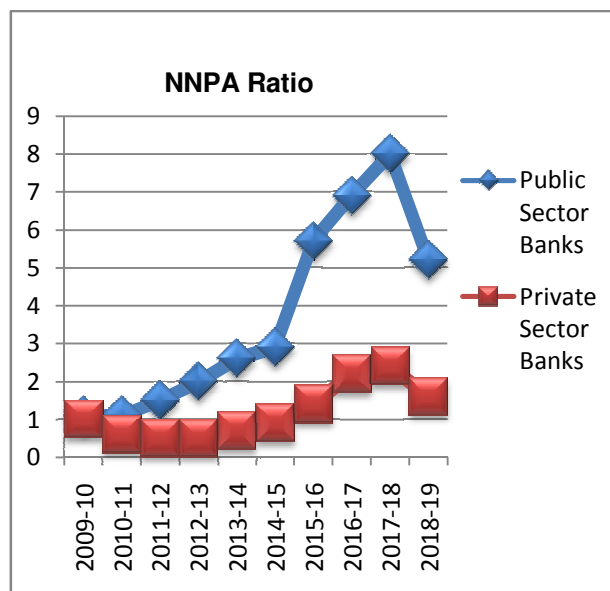
(Source: www.rbi.com)

Fig. 1.

This ratio reveals about asset quality management of banks. Low value of the ratio represents better asset quality management and high value of the ratio represents bad asset quality management. The Gross NPA to Gross advance ratio for the year 2009-10 to 2018-19 presented in above Fig. 1. While analyzing the Fig. 1, it was found that from 2009- 2010 to 2014-15 public sector bank shows an increasing trend with low rate. However, from year 2015-16 to 2017-18 this ratio shows an increasing trend at very high rate that means it has a negative effect on financial health of the bank. On contrary in private sector bank this ratio shows a decreasing trend from the year 2009 -10 to 2013-14. Moreover, in the year of 2014-15 to 2017-18 it shows increasing trend. On the other side this ratio doubled from the year 2016-17 to 2017-18 that means it is not a good sign. In 2018-19 both the sectors NPA ratio is decreasing which shows NPA recovery is very high in this year and financial health of the banking industry is improving. Overall analysis of the ratio shows that asset quality management of private sector bank in good condition compare to public sector bank.

B. NNPA Ratio of Public Sector Bank(PSB) and Private Sector Bank(PVSB)

This ratio reveals about asset quality management of banks. Low value of the ratio represents better asset quality management and high value of the ratio represents bad asset quality management. The Gross NPA to Gross advance ratio for the year 2009-10 to 2018-19 presented in above Fig. 2.



(Source: www.rbi.com)

Fig. 2.

While analyzing the Fig. 1, it was found that from 2009-2010 to 2014-15 public sector bank shows an increasing trend with low rate. However, from year 2015-16 to 2017-18 this ratio shows an increasing trend at very high rate that means it has a negative effect on financial health of the bank. On contrary in private sector bank this ratio shows a decreasing trend from the year 2009-10 to 2013-14. Moreover, in the year of 2014-15 to 2017-18 it shows increasing trend. On the other side this ratio doubled from the year 2016-17 to 2017-18 that means it is not a good sign. In 2018-19 both the sectors NPA ratio is decreasing which shows NPA recovery is very high in this year and financial health of the banking industry is improving. Overall analysis of the ratio shows that asset quality management of private sector bank in good condition compare to public sector bank.

Hypothesis Testing. H₁. There is significant relationship between Net NPA and Net Profit of private sector bank.
H₀ There is no significant relationship between Net NPA and Net Profit of private sector bank.

Interpretation: Table 2 indicates Net NPA and Net Profit from the year 2009-10 to 2018-19 of the public sector banks. The above results depict that there is a highly positive correlation between the Net NPA and net profit of the private sector bank. They are highly positive correlate, which indicates that the net NPA increases on the other side net profit also increases. So on this behalf our hypothesis is accepted.

H₂. There is significant relationship between Net NPA and Net Profit of Public sector banks.

H₀ There is no significant relationship between Net^{NPA} and Net Profit of Public sector banks.

Table 2.

Years	NET NPA	Net Profit (in Crore)
2009-10	6506	13111.4
2010-11	4432	17711.6
2011-12	4401	22718
2012-13	5994	28995.4
2013-14	8862	33754.1
2014-15	14128	38734.7
2015-16	26677	41313.72
2016-17	47780	42247
2017-18	64200	41879
2018-19	67437	27621
Results		.512

Table 3.

Years	NET NPA	Net Profit(in Crore)
2009-2010	29643	39256
2010-2011	36055	44900
2011-2012	59391	49513
2012-2013	90037	50582
2013-2014	130635	37018
2014-2015	159951	37540
2015-2016	320376	-17992
2016-2017	383089	-11388
2017-2018	454500	-85371
2018-2019	285122	-66608
Results		-.884

Interpretation: Table 3 indicates Net NPA and Net Profit from the year 2009-10 to 2018-19 of the Private sector banks. The above results show that there is highly negative correlation between the Net NPA and Net Profit of the Public sector Banks. They are negatively correlated, which indicates that on one side the net NPA increases and on the other side net profit decreases. The loan issuing policy of Public Sector Banks are not effective. Thus, on this behalf our null hypothesis is rejected.

Findings:

- GNPA ratio of Public sector bank is very high as compare to private sector bank. It shows that the asset quality management of Private sector bank is much better than the public sector bank.
- NNPA ratio of Public sector is very high as compare to private sector bank. It shows that the actual burden of public is increase year-by-year high rate. On the other side private sector bank it increase but constant rate
- There is a high negative correlation between the Net NPA and Net profit of the public sector banks. It shows that there NPA is increasing their net profit is also decreasing.
- There is a positive correlation between the Net NPA and Net Profit of the Private sector banks. It shows that there NPA is increasing their net profit is also increasing.

IV. CONCLUSION AND FUTURE SCOPE

The problem of NPA is a serious issue for the economy of developing countries like India .It has started affecting the roots of banking business especially for public sector banks.

Increasing NPA not only impacts the financial position of banks but also the reputation and goodwill. The result of the study shows that the NPA management of private sector bank is much better than the public sector bank. The study also reveals the positive correlation of NPA and net profit of private sector bank and negative correlation between the public sector banks. Which show that the NPA of private sector bank increase their profit is also increase on the other side public sector bank vice versa. Though completely eradication of NPA in Banks is not possible however it can be controlled by implementation of stringent rules and regulations by the government. The bank should look for the authentic reasons behind the debt borrow by the debtor. The banks should have well structure pre and post monitoring system and also can provide the training awareness program regarding the replacement and effective utilization of funds to the borrower. Policy on willful defaulter should be implemented against the defaulter and a fast track tribunal will be very use full to solve this current big banking issue of NPA. The researcher can do study the impact of NPA after merger of public Sector Banks verses private sector.

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