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"Non-Performing Assets in Indian Banking Sector: An Analytical and Comparative Study Between Public and Private Sector Banks"

SRUTHI. S

**M.COM STUDENT, DEPARTMENT OF COMMERCE, UNIVERSITY OF KERALA,
KARIYAVATTOM CAMPUS.**

Email: shruthisoorya@gmail.com

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Abstract

Nowadays, Indian banking sector faces a number of serious issues regarding the increasing level of Non-Performing Assets (NPAs). The Non-Performing Assets have a direct impact on the profitability as well as the liquidity of banks. In India the concept of NPA has emerged after reforms in the financial sector were introduced on the recommendation of the Narsimham Committee (1991). Money related framework assumes a crucial job in the improvement of an economy which is the key factor towards a nation's improvement. It goes about as a middle person between streams of reserve for the individuals who spare as a piece of salary and those putting resources into profitable resources. Banking establishments have the significant job of tolerating long haul store and loaning cash to the borrowers. This research paper aims at identifying which sector (Public/Private) has higher rate of NPA in Indian banking sector and also the paper suggests about the remedial measures to overcome NPAs. The study is conducted purely based on secondary sources of data such as articles, newspapers, magazines, etc.

Introduction

Banking is considered as the heart of every country's economy. Any issue relating to the banking sector will adversely affect the economy of a country. Nowadays, Indian banking sector faces a number of serious issues regarding the increasing level of Non-Performing Assets (NPAs). A Non-Performing Asset is defined as a credit facility in respect of which the interest and/or installment of principle has remained "past due" for a specific period of time (90 days. March 2004 onwards). Non-Performing Asset means an asset of a borrower, which has been classified as standard, sub-standard, loss or doubtful asset with respect to the guidelines of asset classification. NPAs directly affect the liquidity, profitability and the overall survival of banks. The main cause of NPA is when the customer makes any default in payment of loan amount, which he has already been taken from the bank. The

increasing amount of defaults results in higher rate of NPAs in banking industry. NPA concept which effect from 31 March 2001. As needs be, as from that date, a NPA will be a development where- Interest and additionally portion of chief stay late for a time of over 90 days in regard of a term advance.

Review of Literature

Standard Asset	Assets which has remained NPA for a period not exactly or equivalent to a year.
Sub-Standard Asset	NPA for the period less than or equal to 12 months
Doubtful Asset	NPA for the period exceeding 12 months
Loss Asset	Loss Asset is viewed as uncollectible and of such little worth that its duration as a bankable resource isn't justified, in spite of the fact that there might be some rescue or recuperation esteem.

1. **Reddy** (2004) basically analyzed the different issues relating to terms of credit of Indian banks. In this unique situation, it was seen that 'the component of intensity doesn't matter to the criminal behavior.
2. **Chaudhury and Singh** (2014) the scientists point to the effect of monetary changes in the nation on the advantage nature of the banks. As far as gathering savvy results, the creators locate a critical distinction in their nature of credits. In any case, a positive pattern reflected through declining NPA is seen.
3. **Ministry** (2014) "The account service has put the loaning of state-run banks under close watch after a spike in non-performing resources (NPAs) that has constrained a considerable lot of them to hinder credit."
4. **Shah R.**(2014) Rashesh Shah, Chairman and CEO, Edelweiss Group, "Due to high loan costs, swelling and NPA issues, the whole financial industry is under worry from a speculator's perspective, yet there are loads of private area banks which are acceptable quality organizations, which will do well as and when this cycle gets over".

Objectives of the Study

- To study the impact of NPAs on HDFC Bank and State Bank of India
- To analyze the financial performance of the public and private sector banks of India during the last 4 years.
- To know the relationship between Gross NPA, Net NPA and Net Profits of the banks.

Research Methodology

This research is analytical in nature. To achieve the objective of the study, various secondary data sources such as Annual reports of both the banks during 2016-2019 were used.

Variables of the Study:

ICICI Bank (in Crores)

Year	2016	2017	2018	2019
Gross NPA	26720.93	42551.54	54062.51	46291.63
Net NPA	13296.75	25451.03	27886.27	13577.43
Total Advance	492837.65	526766.63	584122.08	668498.75

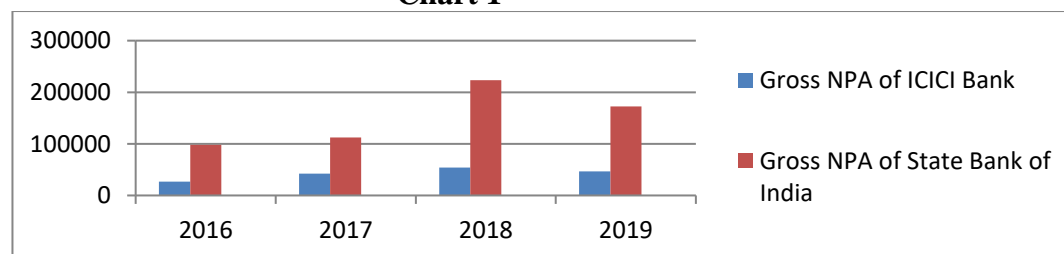
State Bank of India (in Crores)

Year	2016	2017	2018	2019
Gross NPA	98172.80	112342.99	223427.46	172750.36
Net NPA	55807.02	58277.38	110854.70	65894.74
Total Advance	1463700.42	1571078.38	1934880.19	2185876.92

Data Analysis and Interpretation**Table:1** The Table Showing Four Year Comparison on Gross NPA of ICICI Bank & State Bank of India (In Crores)

Year	Gross NPA of ICICI Bank	Gross NPA of State Bank of India
2016	26720.93	98172.80
2017	42551.54	112342.99
2018	54062.51	223427.46
2019	46291.63	172750.36

Source: Secondary Data

Chart 1**Interpretation:**

The Gross NPA of State Bank of India and ICICI Bank increases on an increasing scale.

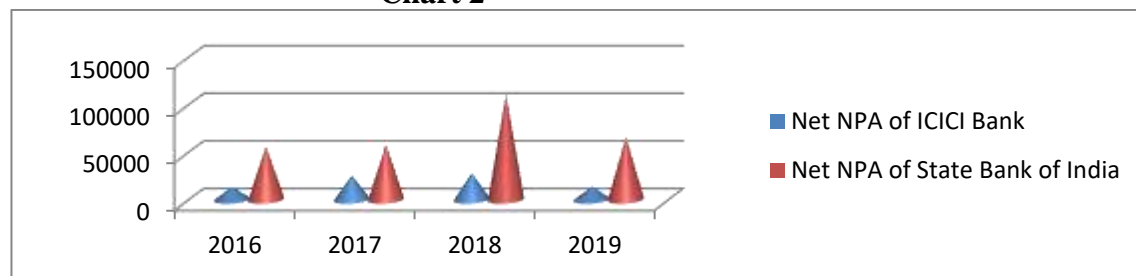
Table 2: The Table Showing Four Year Comparison on Net NPA Of ICICI Bank & State Bank of India (In Crores)

Year	Net NPA of ICICI Bank	Net NPA of State Bank of India
2016	13296.75	55807.02
2017	25451.03	58277.38

2018	27886.27	110854.70
2019	13577.43	65894.74

Source: Secondary Data

Chart 2



Interpretation:

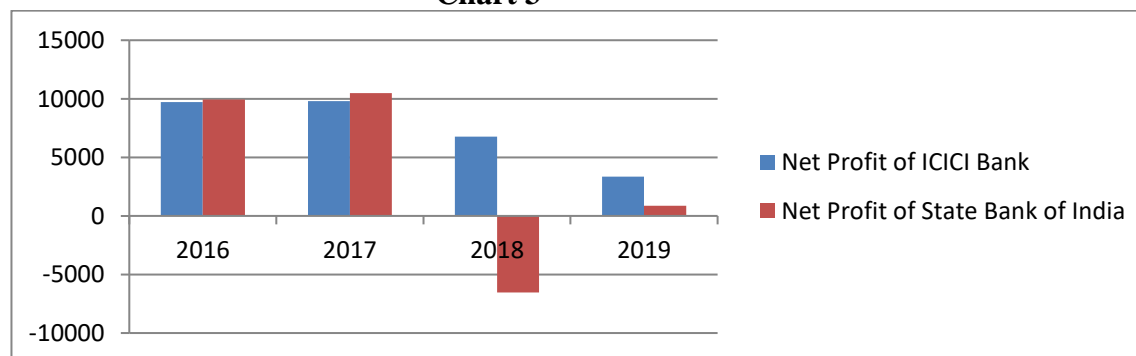
The Net NPA of State Bank of India increases in an increasing scale, but during 2019, ICICI Bank has a constant decrease in the Net NPA.

Table 3: The Table Showing Four Year Comparison on Net Profit of ICICI Bank & State Bank of India (In Crores)

Year	Net Profit of ICICI Bank	Net Profit of State Bank of India
2016	9726.29	9950.65
2017	9801.08	10484.10
2018	6777.42	-6547.45
2019	3363.30	862.23

Source: Secondary Data

Chart 3



Interpretation:

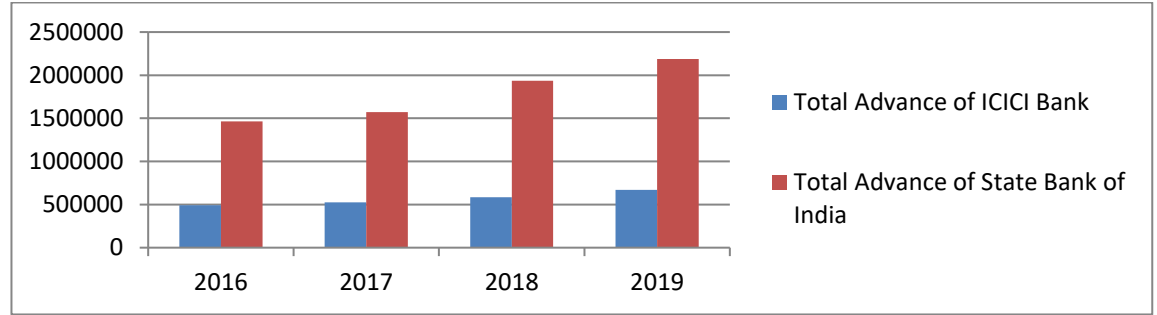
On 2016 to 2017 the Net Profit of the State Bank of India seems to be higher than that of the ICICI Bank. But from 2018 onwards, the Net Profit of the State Bank of India is declining in an increasing rate.

Table 4: The Table Showing Four Year Comparison on Total Advance of ICICI Bank & State Bank of India (In Crores)

Year	Total Advance of ICICI Bank	Total Advance of State Bank of India
2016	492837.65	1463700.42
2017	526766.63	1571078.38
2018	584122.08	1934880.19
2019	668498.75	2185876.92

Source: Secondary Data

Chart 4



Interpretation:

The Total Advances of both banks increases on an increasing scale.

Correlation between Net NPA and Net Profit of State Bank of India:

$$\text{CORRELATION} = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 \cdot (\sum x^2) - n \sum y^2 \cdot (\sum y^2)}}$$

x = NET NPA (in crores)

y = NET PROFIT (in crores)

Table 5: The Table showing Four years of Net NPA and Net Profit of State Bank of India (in Crores)

Year	Net NPA (x) (In Crores)	Net Profit (y) (In Crores)
2016	55867.02	9950.65
2017	58277.38	10484.10
2018	110854.70	-6.547.45
2019	65894.74	862.23

Table 6: The Table showing four years of Correlation between State Bank of India and ICICI Bank

Year	x	y	xy	x ²	y ²
2016	55867.02	9950.65	555913162.5	3121123923	99015435.42
2017	58277.38	10484.10	610985880	3396253019	109916353
2018	110854.70	-6.547.45	725815605.5	1.228876	-42869101.5
2019	65894.74	862.23	56816422	4342116759	743440.5
Total	290893.84	14749.53	1949531070	1.08594937	166806127.4

Correlation = 0.428168

Interpretation:

From the above calculation t, came into conclusion that the Net NPA and Net Profit of ICICI Bank are positively correlated, so the Non-Performing Assets are more. By this we can interpret that the repayment of debt by the customers are less.

Findings

- It was found that there is an increase of 38% in the Gross NPA of State Bank of India during 2016-2017.
- The Net NPA of State Bank of India showed an increase of 23%.
- It was found that there is an increase of 11% in the Total Advance of State Bank of India during 2018-2019.
- The Gross NPA of ICICI Bank showed an increase of 28% during 2018-2019.
- It was found that there is an increase of 25% in the Net NPA of ICICI Bank during 2016-2017.
- Based on the observations obtained it can be said that, higher NPA is a result of diversion of funds, deficiency in the credit appraisal standards and lack of supervision .

Suggestions

- The ICICI Bank should take corrective measures to control NPA.
- Good customer satisfaction procedure must be followed by both banks.
- Borrower's education periodical inspection of Units and sympathetic consideration of genuine problems of the borrowers will help banks in making better loan Recovery.
- Meetings must be conducted with the NPA borrowers to know about the reasons for the default.

Conclusion

The study is to have a comparative analysis on NPA of State Bank of India and ICICI Bank. Detailed analysis was produced using the information gathered through secondary methods and the kind of derivation was attracted discoveries and recommendations are given. Based on the investigation directed, it is demonstrated that in the year 2016-2018 the ICICI bank have higher obligation contrasted with State Bank of India. Be that as it may, on account of ICICI Bank the connection between's Net NPA and Net Profit is sure which implies this bank have higher obligation. Thus, we can presume that while looking at the NPA of the two banks, the ICICI Bank have higher obligation. Remedial measures ought to be taken to control it as the old expression demonstrates "Prevention Is Better than Cure".

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