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COMPARATIVE ANALYSIS OF NPA OF PUBLIC AND PRIVATE SECTOR BANKS

L. Prabha, Janapriya. K, Deekshana. K & Akarshana. G

Research Scholar, Department of B.Com Professional Accounting, PSGR Krishnammal College for Women, Coimbatore, India

ABSTRACT

A bank may be defined as an institution that accepts deposits, makes loans, pays checks and provides financial services. A bank is a financial intermediary for the safeguarding, transferring, exchanging, or lending of money. A primary role of banks is connecting those with funds, such as investors and depositors, to those seeking funds, such as individuals or businesses needing loans. A bank is a connection between customers that have capital deficits and customers with capital surpluses. NPA refers to classification of loans and advances which are in arrears over a period of time. This comparative analysis of Non-performing assets of public and private sector banks helps us to understand the amount of non-performing assets and to analyse the liquidity position of each bank. The tools used to analyse the Non-performing assets of the banks are Capital adequacy ratio, Gross and Net NPA and correlation coefficient. These tools help in comparing the non-performing assets of public and private sector banks and also in providing few suggestions with which banks can improve to do better in future.

KEYWORDS: *Financial Services, Non-Performing Assets, Liquidity Position*

Article History

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INTRODUCTION

A non-performing asset (NPA) refers to a classification for loans or advances that are in default or in arrears. A loan is in arrears when principal or interest payments are late or missed. A loan is in default when the lender considers the loan agreement to be broken and the debtor is unable to meet his obligations. Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

- Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.
- Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months
- Loss assets: As per RBI, “Loss 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.”

SCOPE OF THE STUDY

- To understand the causes and effects of NPA.
- To know their Non-Performing Assets as compared to other banks.

- To improve their performance in terms of profitability.
- The study may help government in creating and implementing new strategies to control NPAs.

OBJECTIVES OF THE STUDY

- To analyse and compare gross non-performing assets in public sector banks and private sector banks.
- To study the correlation between net profit and net NPA.
- To study the solvency position of the banks using capital adequacy ratio (CAR RATIO)
- To study the various recovery channels for Non-performing assets.

TOOLS AND TECHNIQUES USED

- Comparative Ratios(gross NPA and net NPA)
- Capital Adequacy ratios(CAR ratio)
- Correlation coefficient

REVIEW OF LITERATURE

(Balasubramaniam. C.S 2002) 2 in this research article he mentioned that at present NPA's are very high and it should be reduced as soon as possible. To enhance the resource quality in the monetary records banks tend to show the NPA at a lower level. So banks should disclose the non- performing assets without any manipulation, so that the corrective actions will be taken. Bad debts can be recovered only if proper credit examinations are done and credibility of the borrowers are verified.

(Sundharam K. P. M., 2003) 3 Sundharam K.P.M. & Varshney P.N. (2003) Stated that declining interest income is the result of high proportion of total deposits being confiscated in SLR and CRR and earning a relatively low rate of interest. Banks are often forced to lend various areas like agriculture and industry and much of these loans became doubtful debts commonly known as non- performing assets.

(Sinha, 2004) 4Sinha (2004) In this research study for the period 1996-97 to 2002-03 there is change in asset composition of public and private sector banks in respect of loans, advances, off balance sheet exposures and NPA's . This study also suggests that operating efficiency plays a major role in determining the risk taking behaviour and risk incidence of the commercial banks.

ANALYSIS AND INTERPRETATION

CAPITAL ADEQUACY RATIO

Table: 1 Capital Adequacy Ratio of SBI

YEAR	CAPITAL ADEQUACY RATIO – TIER I	CAPITAL ADEQUACY RATIO – TIER II	CAPITAL ADEQUACY RATIO
2013	9.49	3.43	12.92
2014	9.72	2.72	12.44
2015	9.60	2.40	12.00
2016	9.92	3.20	13.12
2017	10.35	2.76	13.11

Interpretation

The Capital adequacy ratio of SBI in the years 2013-2017 is more than 12% which is higher than the minimum capital adequacy ratio of 8%. Hence the bank is in a good position to absorb losses without diluting capital.

GROSS AND NET NPA

Table: 2 Gross and Net NPA of SBI Bank

YEAR	GROSS NPA (In crores)	NET NPA (In crores)	Gross NPA ratio	Net NPA ratio
2013	51189.39	21956.48	4.75	2.1
2014	61605.35	31098.07	4.95	2.57
2015	56725.34	27590.58	4.25	2.12
2016	98172.80	55807.02	6.5	3.81
2017	112342.99	58277.38	6.9	3.71

Interpretation

From the above table we can clearly understand that growth of gross NPA of SBI bank shows an increasing trend with low rate, which is 4.75% to 6.9% which shows it has a negative effect on the financial health of the bank, but in net NPA initially it decreases in 2015 from 2.57% to 2.12% which shows NPA recovery is high in this year and financial health of the bank is improving and after that it starts increasing which rises up to 3.71% in 2017 which is not a good sign.

But we can say that gross NPA has increased 2.15% only from 2013 to 2017, on the other hand net NPA has increased 1.61% only, which shows that the asset quality management of SBI bank is in good condition. Overall analysis shows that gross NPA's are more compared to net NPA, which means more provisions are made by SBI bank so as to reduce the risk of non-recovery.

CALCULATION OF CORRELATION COEFFICIENT

Table: 3 Correlation Coefficient of SBI

YEARS	NET PROFIT	NET NPA
2013	14104.98	21956.48
2014	10891.17	31098.07
2015	13101.57	27590.58
2016	9951	55807.02
2017	10484.10	58277.38
CORRELATION CO-EFFICIENT= (0.852)		
	NET PROFIT	**NET NPA**
NET PROFIT	1	(0.852)
NET NPA	(0.852)	1

Interpretation

The correlation coefficient between net profit and net NPA is (0.852) indicating the negative relationship between the two i.e., a rise in the net NPA shall lead to a fall in the net profits. It shows there is high negative correlation between the variables. In order to check if this result is significant, we test the hypothesis stated above using a **t-test.** The test statistics is given by:

- $t = {}^{r}\sqrt{\frac{n-2}{1-r^2}}$
- [CRITICAL VALUE =3.182
- AS df =3 (df=n-2)
- $\alpha/2$ =0.025]

The test statistic so calculated came out to be **(2.79)** which lie in the acceptance region as the critical value for the 2-tailed t-test was 3.182.Hence we do not sufficient evidence to reject the null hypothesis. Hence we say that the correlation is not significant and there is no significant linear relationship between the net profit and net NPA.

FINDINGS OF THE STUDY

- The percentage change in gross NPA to gross advances ratio and net NPA to net advances ratio over the years is increasing that is gross NPA and net NPA ratio of public sector banks are more compared to private sector banks.
- Overall analysis shows that gross NPA's are more compared to net NPA it states that public sector banks makes more provisions compared to private sector banks.
- Compared to private sector banks, in public sector there is a negative co- relation between net NPA and net profit, which shows there is no significant linear relationship between net profit and net NPA.
- Capital adequacy ratio of all six banks is higher than the minimum CAR ratio which states that all six banks is in a good position to meet its obligation and to absorb losses without diluting capital.
- NPA's reduce the earning capacity and badly affect the profitability of banks.

SUGGESTIONS

- Good management needed on the side of banks to decrease the level of NPA.
- Private sector banks should increase their income from sources other than interest, as rise in NPA due to default in interest income may affect the profit drastically.
- New body like Debt Recovery Tribunal should be established and capacity of DRT's should be enhanced.

CONCLUSIONS

The NPA is one of the biggest problems that the Indian banks are facing today. The various steps initiated by RBI and government of India in improving the functioning of the Debt Recovery Tribunals, LokAdalats and SARFAESI act as a comprehensive settlement policy certainly improves the recovery in NPA accounts. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep affecting the profitability of banks which is not good for the growing Indian economy at all.

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