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Comparing the Non-Performing Assets (NPA) of Selected Public and Private Sector Banks of India.

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Abstract

NPA is a breathtaking case for all the banks belonging to different groups, be it public or private sector or any other. Now, bad loans aren't ceasing anytime soon, so the question arises that which group of banks are good handlers of this so called NPAs. How do they balance with it, at what trend they survive with these non-performing loans in the market and who`s management with the bad loans is better? This paper is an attempt to explore these ideas for two public sector, SBI and PNB, and two private sector Banks, HDFC and ICICI, totaling to four banks under present study for five years from 2017-18 to 2021-22. Further, the study divides its analyzation into two fragments, by comparing on GNPA and NNPA separately amongst and within the group. The derivation of the research leads us to the finding that the private sector has been better with its NPA monitoring. Nevertheless, both the sectors are presenting a downward trend of NPA which is a new wake up call for the country.

Keywords: NPA, GNPA, NNPA, Public sector Banks, Private sector Banks.

Introduction

Major two sectors of banks, Private and Public, have been kept under dilemma due to a wide range of Non-Performing Assets invading from different corners. These Bad loans, if grouped, assimilate in a big heap, which tears the woven work of banks. To have a deep look at these NPAs, we divide them into GNPA and NNPA ratio, where:

Gross NPA (GNPA)- denotes the loans that have turned bad for the borrowers has not paid the loan amount including the interest on it. Net NPA (NNPA)- is the net amount that remains after reducing the debts that are unpaid and all the provisions made by the bank. This ratio gives the exact amount of NPA that is with the bank.

When bank advances money (Loan) to a borrower it is known as the assets of banks because these loans earn interest which is the major source of income to the bank. But when the borrowers default on the repayment of either the principal as well as the interest due on it, these assets turn sour and are termed as Non-Performing Assets- NPAs. The Central bank of the country- RBI, has made mandatory for all the financial Institutions in India to keep a stringent track and record of their NPAs as they decide the financial outcome or the destiny of the banks in India.

Review of Literature

(Sharma & Bansal, 2019) the public sector and private sector banks are compared to evaluate the difference between their NPA ratios and the capital adequacy ratio. The study infers that there lies no difference in the gross NPA to gross advance ratio of public and private banks during 2010-2015. Also there is delay in the judicial process which needs to be checked on an early basis.

(Banerjee, Verma, & Jaiswal, 2018) stresses that the credit management policies adopted by banks in Private sector is better than Public banks. The ROA of Public banks has displayed a downward trend and PNB shows negative trend. The asset quality management is better in Private banks than Public sector banks. overall the trend of NPA during the study period, is rising in case of both sector's banks.

(Vijai, 2018) a detailed study about the theoretical aspect of NPA describing the macroeconomic factors responsible for rising of NPA, the nature and degree of crisis of 1990s is undertaken by the author and concludes by suggesting measures to lessen the impact of defaulting loans on the economy of our country.

(Arya & Jain, 2013) has analyzed the banking industry's GroupWise NPA to compare the volume and management efficiency of each group to tackle the level of bad loans. It states that NPA of SBI Group have increase to almost 200% during the scrutiny period of 2010-2013. At the same time Private sector Banks managed to reduce their level of bad loans from 130 to 30 basis point and Foreign banks from 180 to 43 basis point.

(Bihari, 2012) the paper discusses the concept, magnitude, causes of loans to become non-performing assets at length and suggests number of strategies to curb the growing levels of NPA.

Research Gap:

Comparative studies on Public and Private sector banks are age-old. Therefore, we find related studies dating back to past years. But, this study coincides with the latest year's data and reports the latest scenario of the levels and trend of NPA, which remains quite unsearched and studied upon.

Objective of the study:

1. To identify which bank has the lowest or the highest level of NPA during the period of study.
2. To find the difference in NPAs of Public sector and Private sector banks.

Hypotheses:

H_{01}: There is no significant difference between the GNPA of Public sector banks & Private sector banks.

H_{02}: There is no significant difference between the NNPA of Public sector banks & Private sector banks.

Research Design: This study is descriptive in nature which will help to differentiate the NPA status of the Public and the private sector banks.

Data Collection and Period of Study: Secondary data is employed in the study collected from websites of Reserve Bank of India, money control, and Annual Financial Reports of respective banks. The study period is five years from 2017-18 to 2021-22.

Sample Selection: To conduct the comparative analysis, two banks each from Public and Private sector having highest Asset size are selected. Thus SBI and PNB of Public sector and HDFC and ICICI from Private sector, total four banks are the selected for the study.

Tools and Techniques: Descriptive analysis to work out the Mean, Standard Deviation and Coefficient of Variance is used as well as independent Samples t-test is deployed to assess the difference between the NPAs.

Analysis and Interpretation:

Table No. 1: GNPA Ratio (%)

Year/Bank	**Public Sector Banks**		**Private Sector Banks**	
	SBI	PNB	HDFC	ICICI
2017-18	10.91	18.38	1.30	8.84
2018-19	7.53	15.50	1.36	6.70
2019-20	6.15	14.21	1.26	5.53
2020-21	4.98	14.12	1.31	4.96
2021-22	3.97	11.78	1.17	3.60
Mean	**6.71**	**14.80**	**1.28**	**5.93**
SD	**2.698**	**2.410**	**0.071**	**1.974**
CV	**7.282**	**5.809**	**0.005**	**3.898**
Ranking	**III**	**IV**	**I**	**II**

Source: Annual Reports of Respective Banks and Author's Computation.

Interpretation of Table no.1: The GNPA ratio of SBI and PNB fell from 10.91 and 18.38 in 2017-18 to 6.71 and 14.80 respectively in 2021-22 resembling a sharp decline. Similarly, for HDFC and ICICI the GNPA ratio of 2017-18 has slashed from 1.30 and 8.84 to 1.28 and 5.93 respectively in 2021-22.

Table No. 2 : NNPA Ratio (%)				
Year/Bank	**Public Sector Banks**		**Private Sector Banks**	
	SBI	PNB	HDFC	ICICI
2017-18	5.73	11.24	0.40	4.77
2018-19	3.01	6.56	0.39	2.06
2019-20	2.30	5.78	0.36	1.41
2020-21	1.50	5.73	0.40	1.41
2021-22	1.02	4.80	0.32	0.76
Mean	**2.71**	**6.82**	**0.37**	**2.08**
SD	**1.851**	**2.54726**	**0.034**	**1.57136**
CV	**3.425**	**6.489**	**0.001**	**2.469**
Ranking	**III**	**IV**	**I**	**II**

Source: Annual Reports of Respective Banks and Author's Computation.

Interpretation of Table no.2: The NNPA ratio of SBI was 5.73 in 2017-18, which came down to as low as 1.02 in 2021-22, reflecting a decline of almost 5 times in five years. Similarly, the NNPA of PNB also performed well in shrinking its NPA from 11.24 in 2017-18 to 4.80 in 2021-22 displaying a downfall of 3 times approximately. HDFC Bank has a great record to its credit as it remained able to keep its NNPA ratio below or at 0.40 all throughout the scrutiny period. But ICICI bank exhibited a notable victory in curbing its NNPA of 4.77 in 2017-18 to 0.76 in 2021-22, unveiling a down turn in its NNPA of almost 4 times during the five years of the study.

T-Test Analysis

A t-test is an inferential statistical test used to assess whether there is a remarkable difference amongst the means of two groups. Here in this study the two groups are Public and the Private sector.

Hypothesis-1

H_0: There is no significant difference between the GNPA of Public sector banks & Private sector banks.

H_1: There is a significant difference between the GNPA of Public sector banks & Private sector banks.

In order to know whether these two sector's GNPA differ with each other or not, a two Sample Independent t-test is conducted which inferred at the following conclusion:

There was a significant difference in the ratio of GNPA of Public sector Banks (Mean= 10.75, SD= 4.89) and ratio of GNPA of Private Sector Banks (Mean= 3.60, SD= 2.78) conditions $t(18) = 4.014$ $p= 0.001$. Since $p < 0.001$ is less than the chosen significance level $\alpha = 0.05$, the null Hypothesis is rejected and the alternate Hypothesis is accepted. Thus it is concluded that there lies a significant difference between the GNPA ratio of Selected Public and Private Sector Banks under study.

Group Statistics

	Public and Private sector Banks	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Gross NPA Ratio	PUB	10	10.753	4.8988	1.54914
	PVT	10	3.603	2.78037	0.87923

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Gross NPA Ratio	Equal variances assumed	4.228	0.055	4.014	18	0.001	7.15	1.78125	3.40772	10.89228
	Equal variances not assumed			4.014	14.253	0.001	7.15	1.78125	3.33594	10.96406

Hypothesis-2

H_0: There is no significant difference between the NNPA of Public sector banks & Private sector banks.

H_1: There is a significant difference between the NNPA of Public sector banks & Private sector banks.

On conducting the Independent t-test, it is found that NNPA of Public sector Banks (Mean= 12.85, SD= 1.85) and ratio of NNPA of Private Sector Banks (Mean= 17.79, SD= 1.47) conditions t (18) = -6.587 p= 0.000. Hence, the null Hypothesis is rejected, concluding that there is a significant difference between the NNPA ratio of Selected Public and Private Sector Banks.

Group Statistics

	Public and Private sector Banks	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Net NPA Ratio	PUB	10	12.854	1.8579	0.58752
	PVT	10	17.797	1.47656	0.46693

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Net NPA Ratio	Equal variances assumed	0.056	0.816	-6.587	18	0.000	-4.943	0.75047	-6.51968	-3.36632
	Equal variances not assumed			-6.587	17.127	0.000	-4.943	0.75047	-6.52546	-3.36054

Findings and Conclusion:

On analyzing the data, it is known that among Public sector SBI has been successful than PNB to check its rising NPA and in Private sector, HDFC was capable to limit the bad loans than ICICI when considering both the GNPA and NNPA ratios. Likewise, on comparing sector to sector for reducing and keeping the level of non- performing Assets under check, HDFC scored first rank followed by ICICI, SBI and last was PNB. The results of Independent t-test infer that when GNPA is analyzed, significant difference is found among the NPAs of Public and Private sector Banks. Also difference was produced by t-test in case of NNPA of banks belonging to these two sectors.

With this it is concluded that though NPAs would be stomping the balance sheet of banks, the banking industry has now gained the capability to surpass this hindrance of rising levels of NPA and are outshining in the present economic world.

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