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NPAs in Indian baking industry: A comparative analysis of public and private sector banks

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Abstract: Increased non-performing assets (NPAs) in the banking industry have a number of negative effects on the economy. If NPAs are not handled effectively, it may lead to financial and economic decline, which in turn indicates a poor investment environment. This study focuses on non-performing asset management from the standpoint of Indian public and private sector banks. NPA is a significant limitation when analysing a bank's financial performance because it causes declining margin and higher provisioning needs for dubious debts. Advances are given to many sectors, including SSI, agriculture, priority sector, public sector, and others, by a group of banks from various categories. To keep escalating NPAs in check in the Indian banking industry, these advances require pre-sanctioning appraisal and post-disbursement management. To increase bank profitability and adhere to Basel Accord capital adequacy standards, the NPA must drop.

Keywords: Non-Performing Assets (NPAs), Banking Systems.

I. INTRODUCTION

With the entry of new private and foreign banks, the Indian banking sector has grown more competitive and vibrant. One of the main issues that banks and other financial institutions in India are now dealing with is the issue of bad loans, often known as "Non-Performing Assets," despite the fact that both their quantity and complexity have increased over the past 10 to 15 years. An essential component of banking is the presence of non-performing assets. Every bank has non-performing assets in its portfolio. If the borrower has not made any payments on the principle or interest for 90 days, the loan is classified as a non-performing asset. The net NPAs for scheduled commercial banks were 98,700 crore rupees in 2012–13 and will be 2, 89,300 crore in 2020, according to an RBI study. It is clear that there are more and more instances of non-performing assets in the banking industry every day, which is a severe economic worry. The NPA problem not only affects banks; it also has an adverse effect on the overall economy. Barge (2012) emphasised the need of prompt oversight and management of borrowed money. NPA is a two-edged sword that can harm a bank's capital structure, profitability, and rating. The NPA issue has caused anxiety among policymakers and bankers. Numerous research studies have been carried out to better understand the variables causing the rise in NPAs. More non-performing assets were to blame for numerous bank failures (Nayak et al, 2010). The high percentage of NPAs in Indian banks is only a measure of how well the market and industry are performing. NPAs must be decreased in order to increase the banking sector's financial soundness (Singh, 2013). An growth in non-performing assets has a significant negative impact on the performance and efficiency of the banking sector (Pandey, 2016). If banks are to function more efficiently and profitably, the NPA must be reduced and managed (Prasanna , 2014).

The NPA problem remained in the Indian context despite stringent regulatory measures, the efforts of bankers generally, and lending activity in particular. However, the focus was entirely on providing further suggestions in the form of certain micro level measures that should be carried out for a select number of institutions. To minimise the expanding NPA issue, the Reserve

Bank of India, governments, and commercial banks are all urged to work hard and promptly to analyse the present framework and lessen the possibility of NPAs. In order to perform a thorough analysis of the NPA framework employed by banks, the present study is predicted to concentrate on and strive to acquire insights into a particularly significant area of the banking sector. As a result, both the public and private sectors must do research on the NPAs of Schedule Commercial Banks. In light of this, it has been advised that the current study compare the NPA conditions of commercial banks in the public and private sectors.

II. Literature Review

Numerous empirical studies have emphasised the importance of the financial services sector's growth for the economy's overall development (Koivu, 2002; Levine, 1997; Amaral & Quintin, 2007). Expanding the financial sector, in accordance with (Beck, T., 2005), fosters economic growth and reduces poverty by improving credit availability and more efficiently using society's savings. The literature has shown how closely financial development and economic growth are related (King & Levine, 1993; Beck et al., 2000; Kunt & Maksimovic, 1998; Beck et al., 2004; Klapper et al., 2006; Levine, 2005; Kunt et al., 2008). Additionally, Honohan (2004) devised an index to measure a country's access to finance, and the results revealed that economies with higher indices were advanced or developed economies. He also showed that absolute poverty rates are lower in societies with better financial institutions. It has been discovered that lessening inequality among the population's most disadvantaged sections depends significantly on financial stability (Li et al, 1997). According to several studies,"a well-developed banking system promotes seamless flow of savings and investments thereby assist economic growth" (King and Levine, 1993). India's banking system has seen significant transformation as a result of the financial sector reforms since 1992. The entry of new private and international institutions has increased competition within the Indian banking sector and given it greater energy. However, one of the biggest problems that Indian banks and financial institutions are now facing is bad loans, sometimes referred to as "Non Performing Assets." Singh (2016) asserts that the NPA issue is more severe in public sector banks than in private sector banks. The research that is now available indicates that the banking sector is seeing an increase in non-performing assets, which is a serious economic risk. NPAs are a problem that not only affects banks but the whole economy. Large NPA levels in bank books are a major danger to the institution's health, stability, viability, and soundness, according to Gopalakrishnan (2004). The balance sheets and profitability of banks are significantly harmed by NPAs. Barge (2012) emphasised the need of timely monitoring and administration of lent monies. According to Sahni & Seth (2017), a thorough evaluation of the borrower's creditworthiness is necessary to ensure prompt loan repayment.

III. Research Methodology

The ten banks were selected for the purpose of secondary data collection. Top ten leading public and private sector banks were selected on the basis of annual incomes in 2020. The reason behind selection of 5 Public Banks and 5 Private Banks was that these all banks had maximum annual incomes in 2020 and can represent banking sector of India. Ten years of financial statements has been analyzed for public banks & private banks taken under study. Financial data from 2012-13 to 2021-22 had been studied to analyze latest trends and NPAs of selected public banks & private sectors banks in India.

IV. Finding

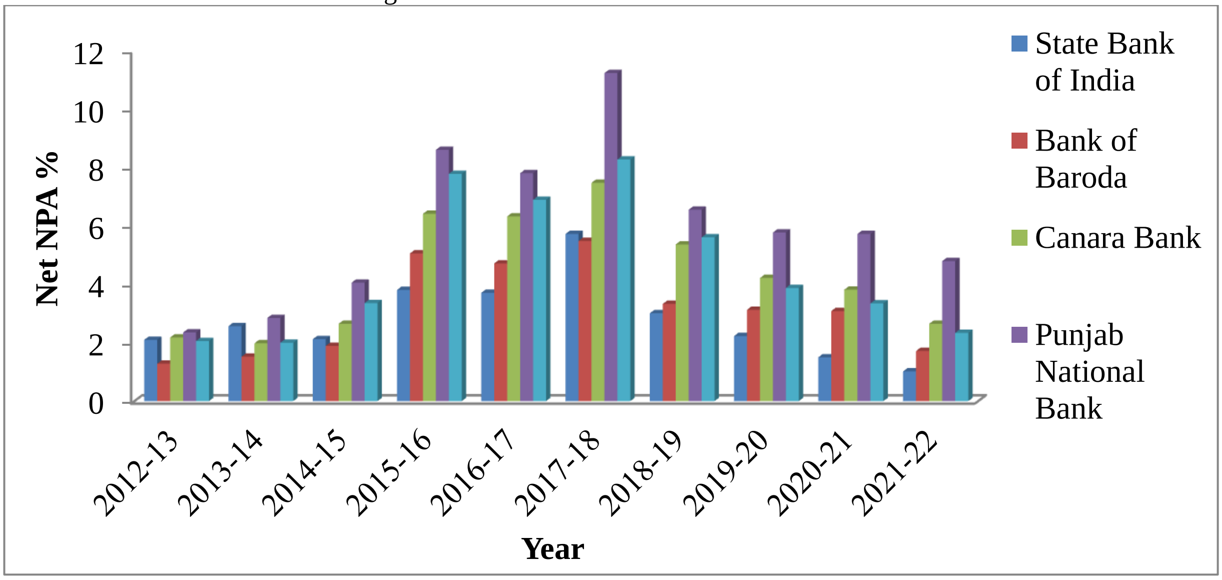
Data from the top five public sector and private sector banks were gathered for the past 10 years, from 2012–2013 to 2021–2022, in order to compare the NPAs in the Indian banking industry. Average and percentage are used in the analysis of the secondary data that were gathered for the study. To make the data more understandable for analytical purposes, bar graphs and pi charts were also employed.

Table 1.1: Net NPA to net advance ratio (%) for Public sector Bank

YEAR	State Bank of India	Bank of Baroda	Canara Bank	Punjab National Bank	Bank of India
2021-22	1.02	1.72	2.65	**4.80**	2.34
2020-21	1.50	3.09	3.82	5.73	3.35
2019-20	2.23	3.13	4.22	5.78	3.88
2018-19	3.01	3.33	5.37	6.56	5.61
2017-18	5.73	5.49	7.48	11.24	8.28
2016-17	3.71	4.72	6.33	7.81	6.90
2015-16	3.81	5.06	6.42	8.61	7.79
2014-15	2.12	1.89	2.65	4.06	3.36
2013-14	2.57	1.52	1.98	2.85	2.00
2012-13	2.10	1.28	2.18	2.35	2.06

Source: https://www.rbi.org.in

Figure 1.1: Net NPA % for Public sector Bank



Based on the Net NPA (%) table and graph of some chosen public sector banks shown above, it can be observed that the Net NPA (%) values of the majority of the banks increased from 2012–13 to 2017–18 and then decreased until 2021–22, indicating that banks are currently at a lower risk level. State Bank of India has the lowest average Net NPA (%) value, while Punjab National Bank has the highest average Net NPA (%) value. No discernible increase or decrease can be noticed during the years under consideration. In comparison to other carefully chosen public sector banks, Punjab National Bank has the greatest risk level, it has been determined.

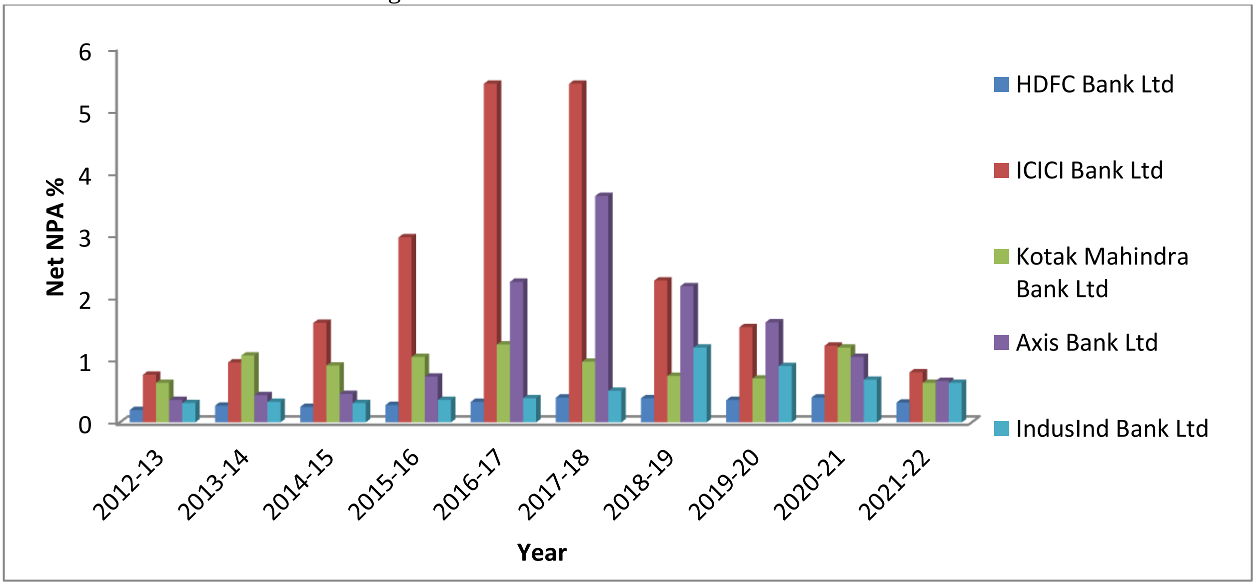
Table 1.2: NET NPA % of Private Sector Banks

YEAR	HDFC Bank Ltd	ICICI Bank Ltd	Kotak Mahindra Bank Ltd	Axis Bank Ltd	IndusInd Bank Ltd
2021-22	0.32	**0.81**	0.64	0.67	0.64
2020-21	0.40	1.24	1.21	1.06	0.69

2019-20	0.36	1.54	0.71	1.62	0.91
2018-19	0.39	2.29	0.75	2.20	1.21
2017-18	0.40	5.43	0.98	3.64	0.51
2016-17	0.33	5.43	1.26	2.27	0.39
2015-16	0.28	2.98	1.06	0.74	0.36
2014-15	0.25	1.61	0.92	0.46	0.31
2013-14	0.27	0.97	1.08	0.44	0.33
2012-13	0.20	0.77	0.64	0.36	0.31

Source: https://www.rbi.org.in

Figure 1.2: NET NPA % of Private Sector Banks



It is evident from the Net NPA (%) tables and graphs shown above for a select few private sector banks that ICICI Bank Ltd. and Axis Bank Ltd. had a significant rise in NPA in 2016–17 and 2017–18. For the years 2021–2022, ICICI Bank Ltd. had the highest average Net NPA (%) value, while HDFC Bank Ltd. had the lowest average Net NPA (%) value. There was neither a noticeable rise nor a drop for the other years examined in the investigation. The result is that ICICI Bank Ltd. is at the highest risk level when compared to the other carefully selected private sector banks. Average Net NPA (%) for public sector banks is greater than for some private sector banks, indicating that some public sector banks are more at risk than some private sector banks.

In terms of private sector banks, the year 2017–18 saw the highest Net NPA (%) figure, while the year 2012–13 saw the lowest Net NPA (%) value. The year 2017–18 saw the greatest Net NPA (%) figure for public sector banks, while the year 2012–13 saw the lowest Net NPA (%) value.

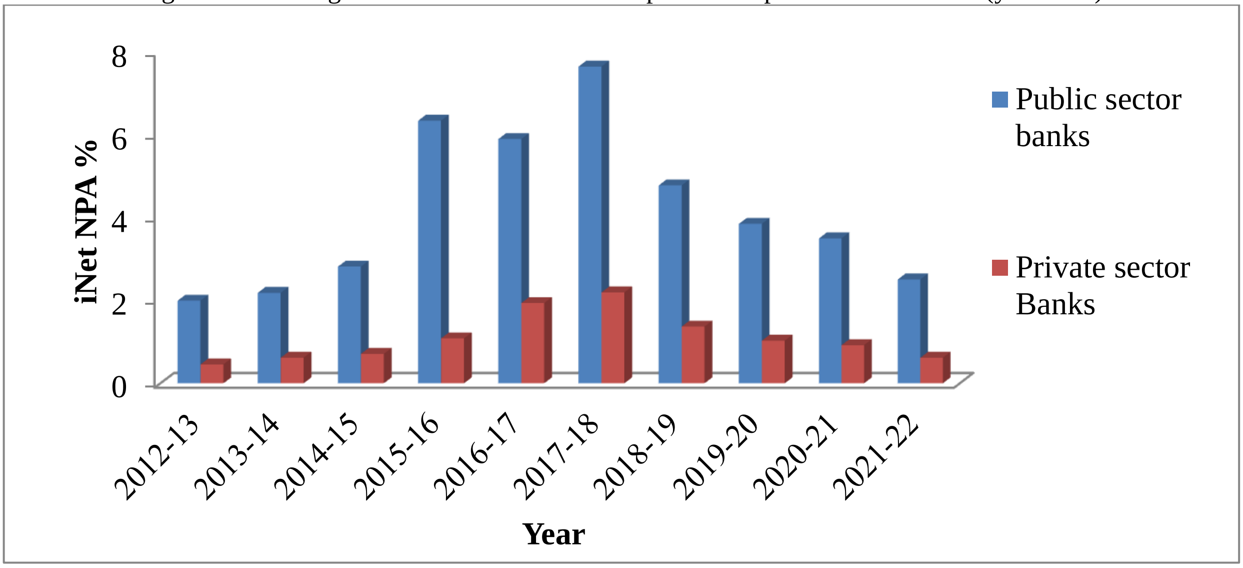
Table 1.3: Average value of net NPA ratio for public and private sector banks (year wise)

Year	Public sector banks	Private sector Banks
2021-22	2.506	0.616
2020-21	3.498	0.92
2019-20	3.848	1.028
2018-19	4.776	1.368
2017-18	7.644	2.192
2016-17	5.894	1.936
2015-16	6.338	1.084

2014-15	2.816	0.71
2013-14	2.184	0.618
2012-13	1.994	0.456

Source: https://www.rbi.org.in

Figure 1.3: Average value of net NPA ratio for public and private sector banks (year wise)



Average Net NPA (%) for public sector banks is greater than for some private sector banks, indicating that some public sector banks are more at risk than some private sector banks. The years 2017–18 saw the highest Net NPA (%) values for both public and private sector banks, while 2012–13 saw the lowest Net NPA (%) values for both of these types of institutions.

V. Conclusion

The NPAs are continuously rising in both public and private sector banks. Average Net NPA for public sector banks is greater than for some private sector banks, indicating that some public sector banks are more at risk than some private sector banks. Having access to sufficient and affordable credit is beneficial for a nation's economic growth. The presence of financial infrastructure is seen as a prerequisite for the quick and balanced growth of any nation since banks are highly important to the process of economic development. By allocating more resources to industries that generate a lot of employment and make a significant contribution to the GDP (Gross Domestic Product) of the nation, the influence of the banking system on economic growth may be observed. However, the non-performing assets, or defaulted loans, have grown recently in the priority sector. We already know that NPAs are a threat to the banking sector; therefore in order to protect our sector and the overall economy, we must continue to investigate their root causes.

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