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The Behaviour of NPA between Public and Private Sector Banks: A Deep Review

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Abstract

As financial intermediaries, commercial banks rely heavily on the performance of their lending as a critical source of revenue. The share of non-performing advances has increased significantly in recent years as a result of increasing loan failures, reducing their profitability. The paper investigated the relationship between NPAs and profitability by estimating the profitability determinants of two public and private sector banks from 2018 to 2022. We discovered that NPA has a negative impact on the profit rate of Indian banks using a set of bank specific and macroeconomic predictors of profitability. According to the study, banks must reduce their NPAs and operating costs in order to improve their profitability.

Keywords: Public Sector Banks, Private Sector Banks, Non-Performing Assets (NPAs), Gross NPA, Net NPA, Correlation, NPA Management.

1. Introduction

A non-performing asset (NPA) is a financial institution classification for loans and advances on which the principal is past due and no interest payments have been made for an extended period of time. Loans generally become NPAs after being outstanding for 90 days or more, though some lenders use a shorter time frame when considering a loan or advance past due.

A loan is classified as a non-performing asset when it is not being repaid by the borrower. It results in the asset no longer generating income for the lender or bank because the interest is not being paid by the borrower. In such a case, the loan is considered "in arrears."

Non-Performing Asset Sub-Classifications (NPAs)

Before classifying an asset as non-performing, lenders typically provide a grace period. Following that, the lender or bank will classify the NPA into one of the following sub-categories:

1. Common Assets

They are NPAs that have been past due for 90 days to 12 months and have a normal risk level.

2. Supplementary Assets

They are non-performing assets (NPAs) that have been past due for more than a year. They are significantly riskier when combined with a borrower with less-than-ideal credit. Banks typically apply a haircut (a reduction in market value) to such NPAs because they are less confident that the borrower will repay the full amount.

3. Doubtful Debts

Non-performing assets in the doubtful debts category are at least 18 months past due. Banks are generally sceptical that the borrower will ever repay the entire loan. This type of NPA has a significant impact on the bank's risk profile.

4. Assets Lost

These are non-performing assets that have been unpaid for an extended period of time. Banks are forced to accept that the loan will never be repaid and must record a loss on their balance sheet as a result of this class. The entire loan amount must be written off completely.

NPA Provisioning

Aside from the technical definition, provisioning refers to the amount of money that banks set aside from their profits or income in a given quarter to cover non-performing assets, which may turn into losses in the future. It is a method used by banks to account for bad assets while maintaining a healthy balance sheet.

Provisioning is done based on the asset's classification. The categories have already been mentioned in the preceding section. Provisioning is affected not only by the type of asset, but also by the type of bank. Tier I and Tier II banks, for example, have different provisioning standards.

GNPA and NNPA

Banks are required to report their NPAs to the public and the RBI on a regular basis. There are primarily two metrics that help us understand a bank's NPA situation. A bank's NPA numbers will be disclosed in its standalone financial statements.

Absolute NPA

GNPA stands for gross non-performing assets. GNPA is a fixed amount. It indicates the total value of the bank's gross non-performing assets in a given quarter or fiscal year.

NNPA: NNPA is an abbreviation for net non-performing assets. NNPA deducts the bank's provisions from the gross NPA. As a result, net NPA provides the precise value of non-performing assets after the bank has made specific provisions for them.

2. Review of Literature

1. Sagarika Mohanty (2021) has done the study of the relationship between NPA with the key parameters of selected banks and find out the impact of NPA on Net profit and Return on Assets (ROA) of the selected.
2. J. K. Das & Surojit Dey have investigated bank-wise as well as sector-wise movement of non-performing assets and find out contribution of each sector towards building up non-performing asset in Indian commercial banks.
3. Santosh Kumar Das & Khushboo Uppal has estimated the factors influencing the profitability of Indian scheduled commercial banks in order to understand the relationship between increasing non-performing advances and profit rate.
4. B. Senthil Arasu, P. Sridevi, P. Nageswari, R. Ramya examined the level of Non-performing Assets (NPA), and how it influences the profitability of the banks. For this purpose, the study considered Gross and Net NPA of 10 Public & Private sector banks from April 2014 to March 2018.

3. Research GAP

As we know that a lot of research has already been done by many researchers in this area but the comparison of 2 public sector bank (SBI, PNB) and 2 private sector banks (AXIS Bank, HDFC Banks) by taking duration from 2018-2023 financial year is still not done. Here I have done a comparative analysis by tanking these selected banks, also analysed their relationship between key parameters of banks with NPAs.

4. Research Questions

- What are the key parameters of banking sector measures the NPAs?
- Is there any relationship between Net NPAs and Net Profit of the bank?
- Which bank is better for NPAs?
- Which bank is worsening for NPAs?

5. The Design of Study

5.1 Statement of Problem

The definition of NPA is evolving in response to the changing times. As a result, NPA in India is gradually increasing at an increasing rate. It is regarded as one of the key indicators used to assess each bank's financial performance. As a result, the investigation of dynamic changes in NPA in banking sector

In India, the banking sector is extremely important. It is better understood by conducting a comparative analysis of Indian public and private sector banks. So, for this study, I have chosen two public sector banks, SBI and PNB, and two private sector banks, AXIS Bank and HDFC Bank, because these banks are the most prominent in their specified area and the best in their category. The current study focused on various components such as gross NPA%, Net NPA%, return on assets%, Net NPA, Net Profit, and so on for both public and private sector banks.

5.2 Scope of the Study

The scope of the study is comparative analysis of 2 public sector banks and 2 private sector banks in India for the duration of 2018 to 2022.

5.3 Objectives of the Study

- To study the relationship between NPA with the key parameters of selected banks
- To find out the impact of NPA on Net profit and Return on Assets (ROA) of the selected Banks

6. Methodology of the Study

6.1 Sources of Data

The current study relies on secondary data. These figures were gathered from various sources, including

- Annual reports from SBI, AXIS Bank, RBI, PNB, and HDFC Bank.
- SBI, AXIS, PNB, and HDFC Bank Press Release Report And related subject matter, as well as related websites of India's public and private sector banks.

6.2 Sample Design

The convenience sampling method was used to select public and private sector banks for the study. On the basis of market capitalization, two public sector banks and two private sector banks in India were chosen for the study. The study spans the years 2018 to 2022.

The Following are the Selected Sample Banks

A. **Public Sector Bank:** State Bank of India (SBI), Punjab National Bank (PNB)
B. **Private Sector Bank:** AXIS Bank, HDFC Bank

6.3 Statistical Tools Used

- Mean has been calculated to know the average performance and to know the stability in the performance of the banks to find out the relationship between NPA and other key parameters of bank.
- Correlation has also used to check the relationship between Net NPA and Net Profit and Return on Assets (ROA) of the selected public and private sector banks in India.

7.1 Data Analysis and Interpretation

Table 1: %Gross NPA of selected public and private sector banks in India from 2020 to 2023

Year	Public Sector Banks (%Gross NPA)		Private Sector Banks (%gross NPA)	
	SBI	PNB	HDFCBANK	AXISBANK
2017-2018	10.91%	18.38%	1.30%	6.77%
2018-2019	7.53%	15.50%	1.36%	5.26%
2019-2020	6.15%	14.21%	1.26%	4.86%
2020-2021	4.98%	14.12%	1.32%	3.7%
2021-2022	3.97%	11.78%	1.17%	2.82%
Mean	6.708%	14.878%	1.282%	4.682%

Interpretation

Table 1 reveals the percentage of Gross NPA of selected public sector and private sector banks in India. PNB has highest Mean ratio of 14.878%, followed by SBI with 6.708%. HDFC has lowest Mean ratio of 1.282%. AXIS Bank have 4.682%Mean ratio. This shows that there is a consistency in Gross NPA to gross advances ratio or % of Gross NPA ratio.

7.2 Relationship between Net Profit and Net NPA of Selected Banks

Table 2: Net Profit and Net NPA of selected public sector banks in India from 2018 to 2022

	SBI		PNB	
YEAR	Net Profit (In Cr.)	Net NPA	Net Profit (In Cr.)	Net NPA
2017-2018	-6547.45	110854.70	-12,282.82	48684.29
2018-2019	862.23	65894.74	-9,975.49	30037.66
2019-2020	14488.11	51871.30	336.20	27218.89
2020-2021	20,410	37119.10	2022	38575.70
2021-2022	31,676	28002.85	3457	34,909
Mean	12177.778	58748.538	-3288.622	35885.108

Interpretation

Table 2 demonstrates that as NPA decreases at an increasing rate, the banks' net profit increases. According to the above table, SBI's NPA decreased by 66.5% between 2018 and 2021, from 110854.70 Cr to 37119.10 Cr. However, when compared to the 2022 fiscal year, NPA has decreased by 24.55%. From 2018 to 2021, PNB Bank's NPA decreased from 48684.29 Cr to 38575.70 Cr. In 2021, the NPA is reduced by 3,667 Cr compared to the previous year. The mean of Net profit of SBI is more as compare to PNB Bank and Average NPA is also high in case of SBI i.e., ₹ 58748.538 Cr.

Breakup of NPA of SBI across Various Industries

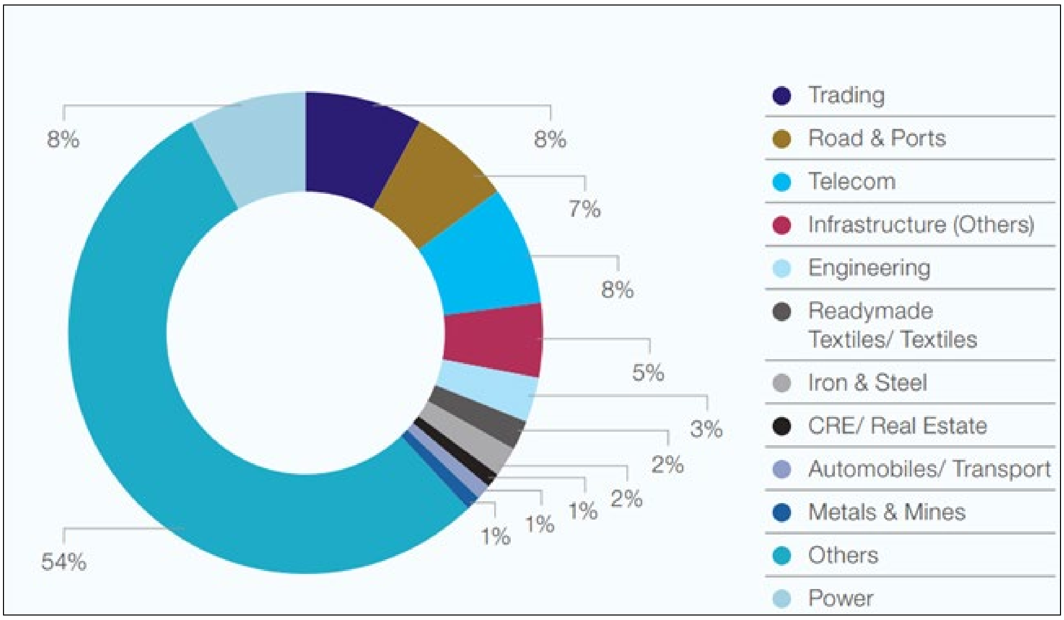

Fig 1: Industry-wise percentage distribution of the NPA portfolio (as of 31th March 2022)

7.3 Relationship of Net Profit And Net NPA of Private Sector Banks

Table 3: Net Profit and Net NPA of selected private sector banks in India from 2018 to 2022

	HDFC		AXIS	
YEAR	Net Profit (In Cr.)	Net NPA	Net Profit (In Cr.)	Net NPA
2017-2018	17,487	2601.02	276	11275.60
2018-2019	21,078.1	3,214.52	4677	9360.41
2019-2020	26,257.3	3,542.36	1,627	6993.52
2020-2021	31,116.5	4,554.82	6589	6,584.59
2021-2022	36,961.3	4,407.68	13025	4,745.30
MEAN	26,580	3,664	5,239	7,792

Interpretation

Table 3 displays the net profit (in crores) and net NPA (in crores) of two private sector banks. HDFC BANK and AXIS BANK are two examples. According to AXIS Bank data, net profit and net NPA have fluctuated over the last five years. Initially increased, then decreased, then increased again, and so on. However, over the last five years, HDFC Bank's net profit and net NPA have increased at an increasing rate. The mean value of net profit in HDFC Bank is 26580 Cr., and the mean value of NPA in HDFC Bank is 3664 Cr.

7.4 Correlation between Mean Net NPA and Mean Net Profit for the 5 Years of the Following Banks

Table 4: Table shows Correlation between Mean Net NPA and Mean Net Profit for the 5 Years of the Following Banks

Bank	Mean Net Profit	Mean Net NPA	Correlation
SBI	12177.778	58748.538	-0.932
PNB	-3288.622	35885.108	-0.408
HDFC	26,580	3,664	0.939
AXIS	5,239	7,792	0.938

Table 4 since we calculated the correlation for all of the banks, we can see that the correlation is negative in the public sector banks, but positive in the private sector banks. It means that the private sector bank's net profit and non-performing assets are inextricably linked. As NPA increases, so does the bank's net profit.

7.5 Correlation between Return on Assets and Net NPAs of Selected Banks

Table 5: Return on Assets (ROA) and Net NPA% of selected public sector banks in India from 2018 to 2022

Year	Public Sector Banks				Private Sector Banks			
	SBI		PNB		HDFCBANK		AXISBANK	
	ROA	Net NPA	ROA	Net NPA	ROA	Net NPA	ROA	Net NPA
2017-2018	-0.19	5.73	-1.60	11.24	1.93	0.40	0.04	3.40
2018-2019	0.02	3.01	-1.28	6.56	1.90	0.39	0.63	2.06
2019-2020	0.38	2.23	0.04	5.78	2.01	0.36	0.20	1.56
2020-2021	0.48	1.50	0.16	5.73	1.97	0.40	0.70	1.05
2021-2022	0.67	1.02	0.26	4.80	2.03	0.32	1.21	0.73
Mean	0.272	2.698	-0.484	6.822	1.968	0.374	0.556	1.76
Correlation	-0.60542		-0.52749		-0.09369		-0.99928	

Table 5 displays the Return on Assets (ROA)% and Net NPA% of selected public and private sector banks in India from 2018 to 2022. SBI's ROA% was negative levels in 2017-18, and its Net NPA% was 5.73 which was declining consistently over the following years.

In PNB, there is a decline, PNB's ROA% was negative in 2018, and 2019, but positive in the rest of the year.SBI has the lowest mean value of 0.272%. Over the year, HDFC has a higher ROA% mean value of 1.968.

8. Findings

Comparison among Public Bank and Private Bank

- **Gross NPA%:** It is a key indicator in the banking industry. According to the comparative analysis, the public sector bank, PNB, has a higher Gross NPA% of 14.878%. HDFC Bank, a private sector bank, has a lower mean value of 1.282%.
- **Net Profit (in Cr):** This figure represents the bank's profitability. The mean value of net profit in HDFC bank is the highest, at 26,580 Cr. And the lowest in PNB, which has negative figures, namely -3288.622 Cr.
- **Net NPA Amount (in Cr.):** This is another important indicator of a bank's financial position. According to the comparison, PNB, the public sector bank, has a higher Mean NPA value of 35885.108Cr. While HDFC, the private sector bank, has a lower Mean NPA value of 3,664 Cr.
- **Return on Assets (ROA)%:** According to the comparison, HDFC has a higher ROA% of 1.968%.

PNB, on the other hand, has a negative mean ROA of -0.484%.

- **Net NPA%:** When comparing public sector banks and private sector banks, Net NPA% is higher in PNB, which has a mean value of NPA% of 6.822, and lower in HDFC Bank, which has a mean value of NPA% of 0.374%.
- **Correlation between Net NPA and Net Profit:** All public sector banks have a negative correlation between Net NPA and Net Profit, with the exception of HDFC and AXIS bank, which has a positive correlation of 0.939 and 0.938 respectively. A negative correlation indicates that as NPA increases, so does net profit.
- **Net NPA% and Return on Assets (ROA)% Correlation:** According to the analysis, NPA has a negative impact on ROA. All of the selected public and private sector banks show a negative correlation. This means that an increase in NPAs leads to a decrease in bank ROA.

Conclusion

In conclusion, NPA is one of the key parameters that indicates the financial stress of any Indian bank. NPA is one of the most serious problems in the banking industry. It is challenging too.

We should not try to eliminate all NPAs from banks, but we should try to eliminate a significant portion of them. After the comparison It is found that NPA is more in public sector banks i.e., Punjab National Bank (PNB) in India and it has negatively affected the profitability of the banks, because PNB has negative correlation between Net NPA and Net Profit. HDFC Bank has a higher ROI% and a lower NPA%. According to this comparison of selected public and private sector banks in India, it is clear that HDFC bank is good for NPA because it has a low Gross NPA%, a low Net NPA%, and a higher ROI% over the last five years. It is difficult to eliminate all NPAs from banks, but we should try to eliminate a significant portion of the 14 NPAs from banks. As a result, it is one of the most pressing issues confronting both public sector banks and the government. The Reserve Bank of India (RBI) is now more empowered to take measures and actions against NPAs in banks. Every public sector bank in India must prioritise NPAs. To eliminate NPAs, banks should improve their credit and repayment structures.

It also focuses on the risk-minimization mechanism by default. Banks must adhere to all government credit policies and take prompt action against NPAs. The bank also improved its NPA management system.

Limitation and Future Scope of Study

- This study relies on secondary data. I only reached this conclusion after analysing data from the previous five years, from 2018 to 2022.
- The statistical concept employed is restricted. The researcher can expand on this topic by using data from the previous ten years, as well as other statistical tools and key parameters such as CASA%, ROCE%, Cost of Income%, and so on, and their impact on the bank's NPAs.

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