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An Empirical Study of Public and Private Sector Bank's NPA for the Period of 2005-2021

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Abstract

One of the most significant and challenging issues affecting the entire banking industry in India is the problem of Non-Performing Assets (NPAs). The primary source of revenue for banks is the interest collected on the loans they extend. However, when banks lend money, they assume the risk of bad credit. This means that the bank is exposed to potential losses if the borrower fails to repay the loan. The conducted analysis addresses the long-standing issues and concerns associated with Non-Performing Assets (NPAs) in scheduled commercial banks in India. This paper aims to assess the efficiency of each scheduled commercial bank in India over the period from 2005 to 2021. It evaluates key indicators, including net profit, total assets, total liabilities, and total employment. The aim and objectives of this study are to evaluate the variables impacted by NPA for public sector and private sector banks in India, to identify the scheduled commercial banks' NPA management shortcomings. The methodology which has been implemented in this study descriptive and panel regression analysis. Results shows that the larger NPA is in private sector bank when compared to public sector bank.

Keywords: Public Sector Bank, Private Sector Bank, Non-Performing Assets (NPAs), Profit, Loss, Bad Debts, Bad Loan, Loan

I. Introduction

The term "Non-Performing Asseta" (NPAs) is commonly used by banks and other financial institutions. It refers to loans issued by these entities where the borrower has missed payments or failed to meet repayment obligations (Shanu Singh, 2017). For a bank, a loan is an asset that generates cash flows from interest and principal payments. A bank's profits are largely derived from these interest payments. When a loan has not been serviced for an extended period, typically ninety days, it is classified as a non-performing asset (NPA). Loans that are only slightly overdue are categorized as past due.

The concept of NPAs is widely understood among bankers. These assets, which also function as lending instruments, are considered non-performing once they cease to generate income for the bank. Prior to March 31, 2004, a credit facility with interest or principal payments overdue for more than four quarters was classified as an NPA. Following improvements in payment and settlement systems, economic recovery, banking technology upgrades, and other factors, the concept of past due ceased to apply from March 31, 2004.

The recent global financial crisis and the present COVID-19 outbreak both highlight how important bank balance sheet resilience is. The accumulation of non-performing loans (NPLs) and the resulting dilution of bank capital are of greatest concern to regulators. In such a time of economic depression, when bank borrowers fall behind on their payments, their loans are listed as non-performing, increasing the risk-weight. Additionally, the bank will have to set aside money for possible loan losses, which will hurt net income and regulatory capital. Because of the greater risk-weights, banks are unable to use this capital for profitable lending and are forced to pay higher funding costs. As high NPL levels might jeopardize bank stability, this has serious economic ramifications (Padhi, 2019). Therefore, to promote lending and keep banks stable, a prompt workout of banks' non-performing loans is essential, especially following an economic slump.

Profitability NPA stands for a money booking for a bad asset that happened as a result of a poor customer selection. The blockage of the funds lowers the bank's prodigality in addition to the NPA amount, but also by the opportunity cost of not using that much of the profit on a project or asset that will provide a return (Ripon Bepari, 2020). Thus, the NPA affects the current and future profits, resulting in the prolonged losses and even to a few lucrative prospects. Low return on investment has a detrimental impact on the bank's current earnings, is another consequence of the decline in profitability (D Gaur, 2021).

Liquidity Money is becoming blocked; declining profits cause a lack of available cash, which forces a corporation to borrow money for the shortest possible time, incurring additional costs (Anureet Virk Sidhu, 2022). Another factor contributing to NPA owing to a lack of funds is difficulty operating bank operations (Jaslene KaurBawa, 2019).

1.1 Factors Impacting:

- **Inadequate Bankruptcy Code:** It is highly inconvenient for the banks and financial institutions to recover the lost loans from corporate and non-corporate borrowers in India due to the absence of a bankruptcy statute and the country's slow legal system.
- **Credit Distribution Mismanagement:** Corruption and bribery are two of the greatest problems the Indian banking system is now dealing with. Due to bribes, financial institutions frequently grant money to debtors. Loans are frequently given to businesses without performing adequate due diligence, simply because they have good contacts with the management and have no intention of repaying the bill.
- **Industrial Crisis:** The COVID-19 pandemic is an example of external circumstances causing crises, which prevent enterprises that suffer significant losses from repaying debts taken. In such circumstances, the companies' NPAs are only recoverable if the economy experiences a strong rebound.
- **Lenient Lending Norms:** Frequently, banks make loans to these companies without fully understanding whether they will be able to repay them because they overestimate the borrower's financial situation.
- **Willful Defaults:** The riskiest type of default, a willful default occurs when the borrower has the ability to pay back the debt but elects not to. Lenders in such situations have the choice of filing criminal charges, engaging in litigation, and recouping their losses (Dr. A.Bala Murugan, 2018). This procedure is typically drawn out, difficult, and should be avoided.

1.2 Classification and the Types of NPA:

Assets are divided into the four following groups:

- Standard Assets
- Substandard Assets

- Doubtful Assets
- Loss Assets

II. Review of Literature

(Dr Jai Prakash Tripathi, October, 2016) studied the comparison between the NPAs of Nationalized banks and State bank group corresponding to the weaker areas. The researcher found out that due to the commendable administration over the non-performing assets, the NPAs have changed owing to the benefit arising from the nature of Indian open division banks.

(Moli, 2017) analyses the problems and measures taken by the banks to control the NPAs in India. The researcher uses descriptive method to analyze found from the secondary sources of data. The paper starts with an in-depth knowledge on the concept of NPAs and its major impacts. Additionally, a gap between India's public and private sectors' gross and net non-performing assets.

(Chaudhary & Singh, 2012) specifically addresses the gaps in the restrictive nature of the publications on the Indian banking reforms. The goal of the research was to examine how changes affected the asset quality of Indian public, private, and foreign banks. The analysis was done group-wise and year-wise. The researcher briefly described on the reforms-initiated post 1991.

(C.S.Balasubramaniam, 2019) performs a conceptual discussion on NPA by including an analysis on the overall profitability of banks, management and resolution of NPAs. The researcher explains the high cost of funds due to the increasing number of NPAs and the keys to resolve it. The impact of NPAs on profitability, liquidity, management investment, and credit loss are also covered in the study. As a result of the banks' ability to raise a sizeable amount of money, the overall capital situation dramatically improved. Additionally, some banks' strong performances, such ICICI Bank and HDFC Bank, have resulted in stronger credit-granting capabilities due to their higher capital adequacy, superior IT, and current financial skills.

(Namita Rajput, 2012) draws a comparison of the public sector banks' performance in the Basel I and Basel II norms. The public sectors banks taken for comparison are the SBI & its associates and other nationalized banks. The time taken was of a 10-year bracket – from 2001 to 2010. This was also the year when financial recession happened.

III. Aim and Objectives

1. To evaluate the variables impacted by NPA for Public and Private Sector Bank in India.
2. To identify the Public and Private Sector Bank NPA management shortcomings.

IV. Research Methodology

A deeper analysis reveals that inadequate risk assessment in lending activities is a significant cause of NPAs. The inability of a borrower to fulfill repayment obligations stems from two independent components: external factors beyond the control of the borrowing unit and internal factors within the unit. Addressing both these aspects is essential for reducing NPAs and enhancing the overall health of the credit portfolio.

Data Collection: Data is collected with the help of secondary source such as RBI reports and excel file. Bank reports have also been taken into consideration.

Period of the Study: Indian public and private banks throughout the course of the last sixteen years, from 2005 to 2021.

Method: The statistical method has been implemented in this study such as descriptive statistics, time series analysis and panel regression analysis.
Tool used for the study: IBM SPSS tool have been used to analyse the data statistically.

V. Statistical Analysis

The following table provides an overview of private sector banks, detailing their net profit, total assets, gross Non-Performing Assets (NPA), net NPA, and total employment numbers for the period from 2005 to 2021.

Table 1.0: Summary of Private Sector Banks by Net Profit, Total Assets, Gross NPA, Net NPA, and Total Number of Employment

Year	Net Profit (Amount in 10000 Crore)	Total Assets (Amount in 10000 Crore)	Gross NPA (Amount in 10000 Crore)	Net NPA (Amount in 10000 Crore)	Total Employment (thousands)
2021	6.95	643.10	20.01	5.58	570.71
2020	1.91	583.21	20.96	5.57	554.42
2019	2.76	529.79	18.36	6.73	477.71
2018	4.18	429.89	12.93	6.44	420.53
2017	4.22	360.14	9.32	4.78	403.46
2016	4.13	314.67	5.62	2.67	374.79
2015	3.87	260.33	3.41	1.41	310.04
2014	3.38	225.88	2.45	0.89	294.97
2013	2.90	198.98	2.11	0.60	273.07
2012	2.27	169.31	1.88	0.44	248.28
2011	1.77	139.82	1.82	0.44	187.91
2010	1.31	115.07	1.76	0.65	182.52
2009	1.09	102.78	1.69	0.74	176.34
2008	0.95	94.01	1.30	0.56	158.82
2007	0.65	74.54	0.93	0.40	139.04
2006	0.50	57.16	0.78	0.32	110.51
2005	0.35	42.79	0.88	0.42	92.42

The above table presents the summary of private sector banks. In this case of the banks, the net profits remained at rise from 2005 – 2021. However, the only period where the net profits declined are in the year 2019. The net profits declined from Rs. 4.18 ‘0000 crore in 2018 to Rs. 2.76 ‘0000 crore in 2019. The net profits continued to decline till the year 2020 and soon recovered at speed in the year 2021.

Summary of Public Sector Banks by Net Profit, Total Assets, Gross NPA, Net NPA, and Total Number of Employment

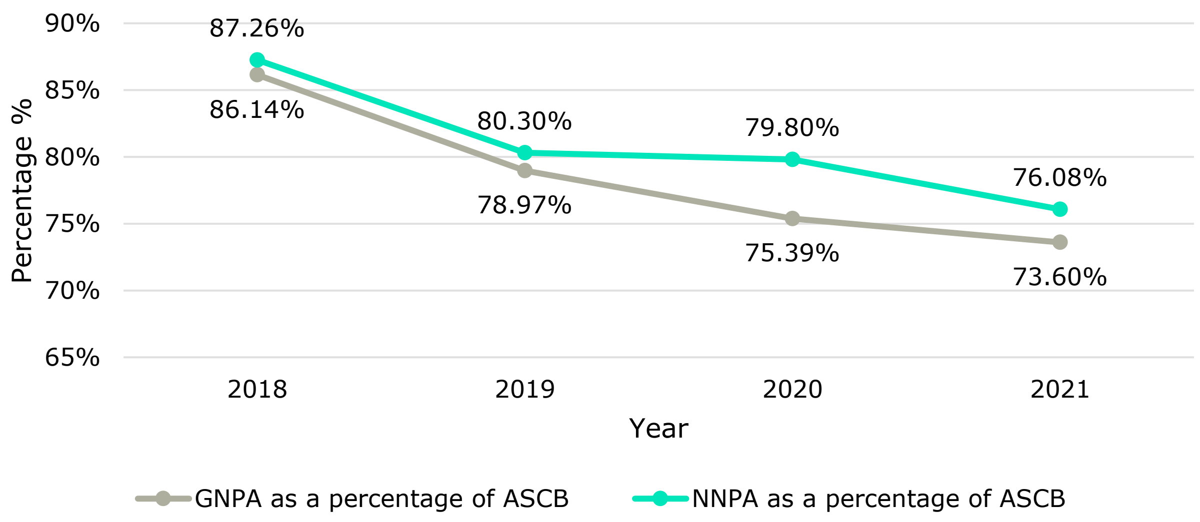
Year	Net Profit (Amount in	Total Assets (Amount in	Gross NPA (Amount in	Net NPA (Amount in	Total Employment (thousands)

	10000 Crore)	10000 Crore)	10000 Crore)	10000 Crore)	
2021	3.18	1173.14	61.66	19.65	783.52
2020	-2.60	1078.28	67.83	23.09	790.66
2019	-6.66	1016.32	73.95	28.51	807.58
2018	-8.54	1003.49	89.56	45.45	844.16

The above table presents the summary of the performance in the public sector banks including net profit, total assets, gross NPA, net NPA and total number of employments over the years 2018 - 2021. The net profit over the mentioned period is only visible in the year 2021. In the rest of the years, there are only losses. However, the trend of losses is continually decreasing to finally overcome losses in 2021. Therefore, the net profits in 2021 were Rs. 3.18 ‘0000 crore, rose from the loss of Rs. 2.60 ‘0000 crore. However, the total assets in the same year 2021. The total assets declined from Rs. 1078 ‘0000 crore in 2020 to Rs. 1173 ‘0000 crore in 2021.

It is worth taking a note that the net NPA and the gross NPA levels continually kept on decreasing over the mentioned period in the public sector banks. This is a positive sign in the health of the public sector bank. The result can be seen in the same year, 2021, the employment also decreased. Therefore, it is indicative that as the NPA declined the costs declined as well in the form of remuneration of the employees and hence the profits increased.

Figure 1: GNPA and NNPA of the Public Sector Banks as a Percentage of All Scheduled Commercial Banks

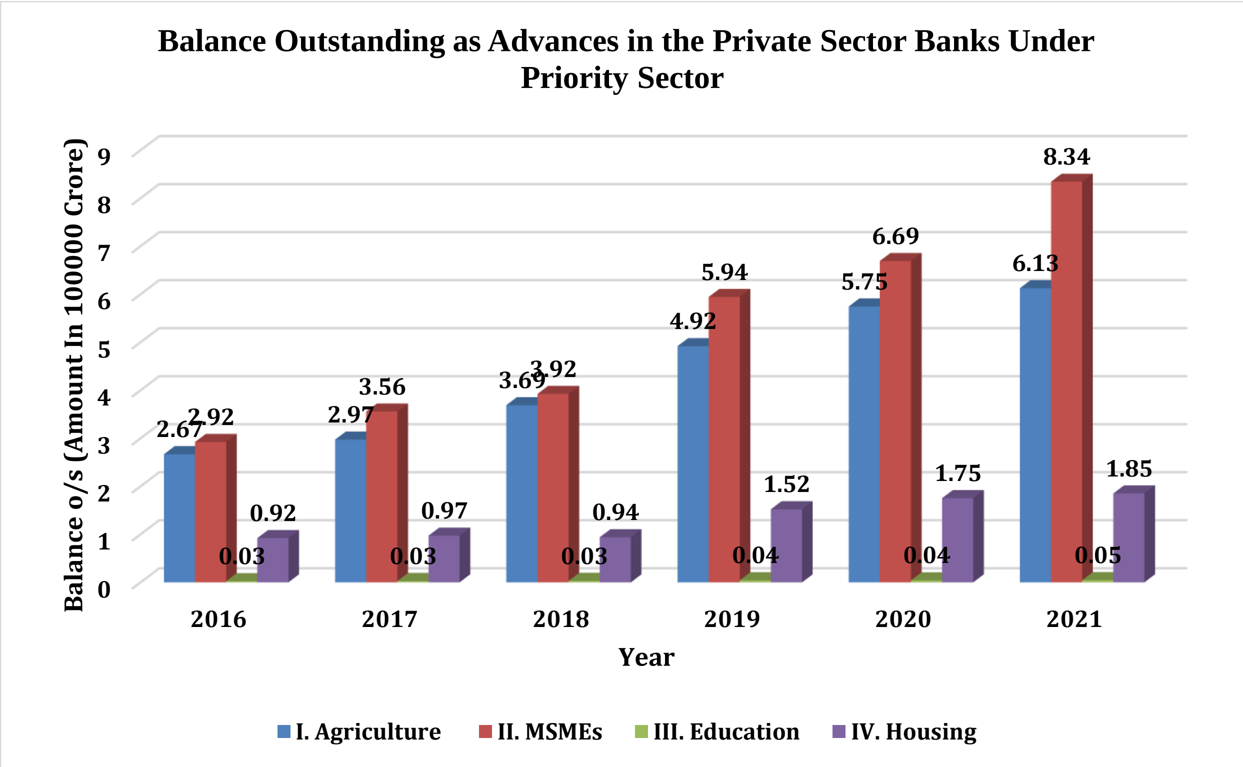


As shown in the graph above, there is a huge divergent gap between the GNPA and NNPA in the year 2020. It must be noted that in all the years, NNPA is greater than the GNPA. These indicate that the percentage of provisions in the public sector banks of all the scheduled commercial banks have decreased considerably in the year 2020 in comparison to 2019. The gap further revived back in the year 2021. However, the NNPA still remains greater than the GNPA.

Component of NPA is contributing the most of the NPAs in public sector banks:

The rising NPA levels in the public sector banks have been a continual menace for the Indian banking sector. There can be several reasons through which the rising NPAs could be explained. These are enlisted as follows:

- Telephone banking, in which politicians impede bank operations by ordering bank employees to sign documents under duress and by tolerating deviations like as those made by Vijay Mallya, Essar Steel, and Videocon.
- As part of government-mandated welfare programmes, PSBs lend to risky industries like MSME, similar to Mudra loans. No collateral security is required up to Rs. 10,00,000, and most of the money is stolen by the borrowers.
- PSB had little autonomy from the government, which left them without a level playing field when it came to managing NPAs.
- A convoluted bankruptcy code.
- There is no clause naming and shaming the borrowers.
- Bonds for elections influenced political pressure led to the imposition of significant haircuts, and that NCLR then requested banks accept further reductions.
- Dirty job handling managers / corrupt officials being promoted, elevated setting the wrong precedent.



The above figure portrays the balance outstanding as advances in the private sector banks. The blue bars represent the agriculture sector, the orange bars represent the MSMEs, the grey bars represent the education sector and the yellow bars are representative of the housing sector.

The MSMEs sector dominated with balance outstanding as advances, followed by the agriculture sector, then by housing sector and then by the education sector, over the years 2016 – 2021.

VI. Conclusion

The Indian economy has been in a downward trajectory over the past few years, and the banks are suffering due to huge NPAs. In recent years, managing bad loans and keeping them under control has been of utmost importance for the banking industry. loans and keeping them under control has been of utmost importance for the banking industry. In both public and private sector banks, there doesn't seem to be any corporate governance efforts that are successful in lowering the NPA (Iqbal THONSE HAWALDAR, 2020). Net assets, NPA levels, net income, and employment levels are used to achieve this. The evaluation based on each variable's trend is still the major concern. In order to achieve this goal, the study makes an effort to identify patterns in trends and suggests potential causes (Ibrahim, Components of Non-performing Assets (NPAs) of Indian Scheduled Commercial Banks - A Review, 2012). This goal provides a summary of all scheduled commercial bank categories operating in India from 2005 to 2021. Therefore, a comparison between NPAs experienced by public sector banks in the priority sector, non-priority sector, and the public sector has been made.

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