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# A Comparative Study of NPA with special reference to Public, Private and Scheduled Commercial Banks

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**ABSTRACT**

*Financial performance of each and every sector depends on many internal and external indicators. In banking sector, financial performance depends on many factor in which NPAs is the one main. If there is no action taken to recover the NPAs the banks may go on loss. So, there is need to check the position of Bank on time. This study is to check the Gross NPA s of the 3 selected Banks (Public sector banks, Private sector banks and Scheduled commercial banks) covering the period of 12 years (2006-07 to 2017-18). The trend values has been finding out of all the 3 banks and found that there is an increasing trend pattern of NPAs in all the 3 selected banks. And by applying statistical tool Post hoc ANOVA, it is found that with p value 0.30 there is significant difference in the Gross NPAs of all the 3 banks. Scheduled commercial banks have more NPAs comparatively Public sector banks and private sector banks. So, there is need to solve this problem by using some corrective measures.*

## 1. Introduction

In today's world banks play an important role to deposit and lending money to customers. In this way, they act as financial intermediaries between depositors having surplus funds and borrowers who have financial need. With the help of income generated from such advances, the operating expenses of banks are met. If the business for which the lending has been made by the banks does not perform well, the banks are also subject to risk simultaneously. In this background, the main role of Government and the Reserve Bank of India (RBI) is to limit the risk & loss to depositors. This will help in maintaining public confidence besides averting the chances of collapse of the banking system. In view of this, the RBI as a regulatory authority issues guidelines to the banks and financial institutions for proper monitoring and management of credit system. Various committees have been set up from time to time to suggest appropriate mechanism of credit management and administration,

The Reserve Bank of India introduced more objectivity in the assessment of the bad debts of the banks and in line with the same introduced standards in the light of accounting norms prevalent as per international standards for maintaining sound banking system in the country. The implementation of Narsimha Committee (1991) led to the foundation of objective and more scientific criteria based on prudential norms of income recognition, assets classification, provision and capital adequacy. From the year 1992 onwards, the banking sector reforms were introduced which to meet the new challenges in the in the dynamic environment requiring thrust on "4 Cs" i.e. Credit, Customer, Computer, and Capital Restructuring. The changing scenario required banks redefine their priorities for their survival and growth. As a part of prudential and disclosure norms, the assets of the banks were categorized into different category.

**Concept of NPA:**

The assets of the banks which do not generate return are called Non Performing Assets (NPA) or bad loans. Reserve Bank of India specified that the terms loans on which interest or installment of principal remain unpaid and overdue for a period of more than 90 days from the end of a particular quarter, it is called a Nonperforming Asset.

**Gross NPA and Net NPA:**

Gross NPA is the amount which has been lent by the bank and remaining outstanding regardless of any interest recorded and debited. In contrast to this, Net NPA is achieved when interest debited to borrower account and not recovered or recognized as income. According to guidelines issued by RBI, every bank is required to make "provision" for NPAs.

According to some experts, Gross NPA is a better indicator than net NPAs because the former does not incorporate the endogenous provisioning process. This is because banks make provisioning for NPAs according to their capacities.Net NPAs do not present a true picture of NPAs so they will have to be supplemented by gross NPAs.

## 2. Literature Review:

**Dharwal, M.,(2016)**attempted a study to know the impact of macroeconomic variables on NPA of selected banks. Secondary data had been taken by the researcher and with the help ANOVA and Post Hoc Analysis it was calculated that public sector banks had the highest NPA and there is need to take some corrective action to reduce this. He also found that all the macroeconomic variables (GDP, inflation rate and industrial production) had the significant impact on the NPA.

**Singh, V.R.,(2016)** made an attempt to check the position of NPAs in Commercial Banks during the period 2001-02 to 2013-14. He found in his study that NPA of public sector banks was comparatively very high from other banks. This was

recovered to some extent by LokAdalat, DRTs and SARFAESI but not completed. So, there is need to curb this problem.

**Dudhe, C.,(2017)** carried out a study to know the impact of NPA on the profitability of Banks and by using panel regression on 7 selected banks covering the period of 2007-2016. He found in his result that all the banks except SBI and PNB had negative relationship between Gross NPA and Profitability. There was less NPA in the SBI and PNB and their profit is increasing every year. Both banks are paying attention to recover the pending NPAs.

### 3. Objectives of the Study

- To study the trend pattern of Gross NPAs in the selected Banks from the period 2006-07 to 2017-18.
- To analyze the difference of Gross NPAs across the selected Banks.

### 4. Research Methodology

- This study is considering the Pattern of Gross NPAs.
- Period of Study: To achieve the objectives, the data for the period 2006-07 to 2017-18 have been taken.
- Area of Study: In this study Gross NPAs of 3 Banks (Public Sector Banks, Private Sector Banks and Scheduled Commercial Banks) have been taken.
- Analysis Method: The collected data are analyzed with the help of ANOVA and PostHoc Analysis.
- Sources of Information: This study is based on Secondary data, the data is collected from various sources:-
  - Handbook of Statistics on the Indian Economy
  - Reserve Bank of India
  - Different organizations, institutes, agencies and government offices

### 5. Analysis and Interpretation:

| | Table 1:Gross NPAs (Amount in Rs. Billion) | | |
|---|---|---|---|
| **Year** | **Public Sector Banks** | **Private Sector Banks** | **Scheduled Commercial Banks** |
| 2006-07 | 421.17 | 75.99 | 517.53 |
| 2007-08 | 389.68 | 91.45 | 505.17 |
| 2008-09 | 406 | 129.22 | 566.06 |
| 2009-10 | 459.18 | 167.87 | 699.54 |
| 2010-11 | 573.01 | 173.07 | 817.18 |
| 2011-12 | 710.42 | 179.05 | 939.97 |
| 2012-13 | 1124.88 | 182.1 | 1369.68 |
| 2013-14 | 1644.61 | 203.82 | 1927.69 |
| 2014-15 | 2272.64 | 241.84 | 2630.15 |
| 2015-16 | 2784.68 | 336.9 | 3229.16 |
| 2016-17 | 5399.56 | 558.53 | 6116.07 |
| 2017-18 | 6847.33 | 919.15 | 7902.68 |

**Source:** Handbook of Statistics on the Indian Economy, RBI and compiled from various sources

Table 1 shows the values of Gross NPAs in the 3 selected banks from 2006-07 to 2017-18. There was Rs.421.17 billion of NPA in public sector banks in the year 2006-07 which was decreased by Rs. 406 Billion in the year 2008-09. After this year this is increased at a higher rate and increased uptoRs. 6847.33Billion in the year 2017-18. In the year 2006-07 there was Rs. 75.99 Billions of NPAs in private sector banks. This has been increased with decreasing rate uptoRs. 919.15 Billion in the year 2017-18. And in the Scheduled Commercial Banks it was Rs. 517.53Billion in the year 2006-07 and continuously increased by 7902.68 in the year 2017-18. Scheduled Commercial banks have more NPAs than public sector banks and private sector banks.

| Table 2: Trend Values of Gross NPAs (Base Year 2006-07) in % | | | |
|---|---|---|---|
| **Year** | **Public Sector Banks** | **Private Sector Banks** | **Scheduled Commercial Banks** |
| 2006-07 | 100 | 100 | 100 |
| 2007-08 | 92.52 | 120.34 | 97.61 |
| 2008-09 | 96.40 | 170.05 | 109.38 |
| 2009-10 | 109.02 | 220.91 | 135.17 |
| 2010-11 | 136.05 | 227.75 | 157.90 |
| 2011-12 | 168.68 | 235.62 | 181.63 |
| 2012-13 | 267.08 | 239.64 | 264.66 |
| 2013-14 | 390.49 | 268.22 | 372.48 |

| | | | |
|---|---|---|---|
| 2014-15 | 539.60 | 318.25 | 508.21 |
| 2015-16 | 661.18 | 443.35 | 623.96 |
| 2016-17 | 1282.04 | 735.00 | 1181.78 |
| 2017-18 | 1625.79 | 1209.57 | 1527.00 |

Sources: Researcher's Calculation

Table 2 shows the trend values of Gross NPAs across the 3 selected banks. In this the year 2007-08 has been assumed as base year and on the basis of this base year the trend values has been calculated. There is an increasing trend pattern of NPAs in all the 3 selected banks. It is 92.52% in the year 2008-09 and has been increased by 1625.79% in the last year i.e. 2017-18. In private sector banks the trend pattern is 120.34% in the year 2007-08 and has been increased upto 1209.57% in the year 2017-18. The same pattern is followed in scheduled commercial banks and the trend value in the year 2007-08 is 97.61% and it is increased by 1527% in the last year 2017-18.

***ANOVA Analysis:***

To check the differences between the Gross NPAs of different categories of banks data is analyzed with statistical technique One-way-ANOVA. A hypothesis testing is used to check the analysis.

**H0: There is no significant difference in the Gross NPAs of different categories of selected banks.**

**H1: There is significant difference in the Gross NPAs of different categories of selected banks.**

**Table: 3 Descriptive Analysis**

**NPAs**

| | N | Mean | Std. Deviation | Std. Error | 95% Confidence Interval for Mean | | Minimum | Maximum |
|---|---|---|---|---|---|---|---|---|
| | | | | | Lower Bound | Upper Bound | | |
| **Scheduled Commercial Banks** | 12 | 2268.4067 | 2410.80813 | 695.94036 | 736.6523 | 3800.1611 | 505.17 | 7902.68 |
| **Private Sector Banks** | 12 | 271.5825 | 241.10105 | 69.59988 | 118.3942 | 424.7708 | 75.99 | 919.15 |
| **Public Sector Banks** | 12 | 1919.4300 | 2137.50118 | 617.04344 | 561.3265 | 3277.5335 | 389.68 | 6847.33 |
| **Total** | 36 | 1486.4731 | 2015.13826 | 335.85638 | 804.6484 | 2168.2977 | 75.99 | 7902.68 |

Sources: Researcher's Calculation

Table 3 specifies the descriptive analysis of the Gross NPAs of the different selected banks. It gives us the result of Mean and Standard Deviation. The Mean Column shows the Mean of the Gross NPAs of the banks. It is 2268.41, 271.58 and 1919.43 of the SCB, Private sector banks and Public sector banks respectively. The Mean value of Private sector bank is very less as compare to Public sector bank and Scheduled Commercial Bank.

**Table: 4 ANOVA Analysis**

**NPAs**

| | Sum of Squares | d.f. | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| **Between Groups** | 27297971.399 | 2 | 13648985.699 | 3.922 | .030 |
| **Within Groups** | 114829405.275 | 33 | 3479678.948 | | |
| **Total** | 142127376.674 | 35 | | | |

Sources: Researcher's Calculation

This table indicated that there is statically significant difference in the Gross NPAs of all the 3 selected banks at 5% level of significance as p value is .030 i.e< .05. Thus, null hypothesis is rejected.

**Table: 5 Post Hoc Tests**

**Multiple Comparisons**

**Dependent Variable: NPAs**

**Tukey HSD**

| (I) Type of Banks | (J) Type of Bank | Mean Difference (I-J) | Std. Error | Sig. | 95% Confidence Interval | |
|---|---|---|---|---|---|---|
| | | | | | Lower Bound | Upper Bound |
| **Scheduled Commercial Banks** | Private Sector Banks | 1996.82417* | 761.54218 | .034 | 128.1561 | 3865.4922 |
| | Public Sector Banks | 348.97667 | 761.54218 | .891 | -1519.6914 | 2217.6447 |
| **Private Sector Banks** | Scheduled Commercial Banks | -1996.82417* | 761.54218 | .034 | -3865.4922 | -128.1561 |
| | Public Sector Banks | -1647.84750 | 761.54218 | .093 | -3516.5155 | 220.8205 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Public Sector Banks** | Scheduled Commercial Banks | -348.97667 | 761.54218 | .891 | -2217.6447 | 1519.6914 |
| | Private Sector Banks | 1647.84750 | 761.54218 | .093 | -220.8205 | 3516.5155 |
| *. The mean difference is significant at the 0.05 level. | | | | | | |

Sources: Researcher's Calculation

To check the actual differences in the categories of banks post hoc analysis is conducted and it is found that scheduled commercial banks is different in NPAs from private sector banks as indicated by p value i.e .034 which is less than .05.

**Table:6Homogeneous Subsets**

| **Gross NPAs** | | | |
|---|---|---|---|
| **Tukey HSD**[a] | | | |
| **Type of Banks** | N | Subset for alpha = 0.05 | |
| | | 1 | 2 |
| **Private Sector Bank** | 12 | 271.5825 | |
| **Public Sector Bank** | 12 | 1919.4300 | 1919.4300 |
| **Scheduled Commercial Bank** | 12 | | 2268.4067 |
| **Sig.** | | .093 | .891 |
| **Means for groups in homogeneous subsets are displayed.** | | | |
| **a. Uses Harmonic Mean Sample Size** = 12.000. | | | |

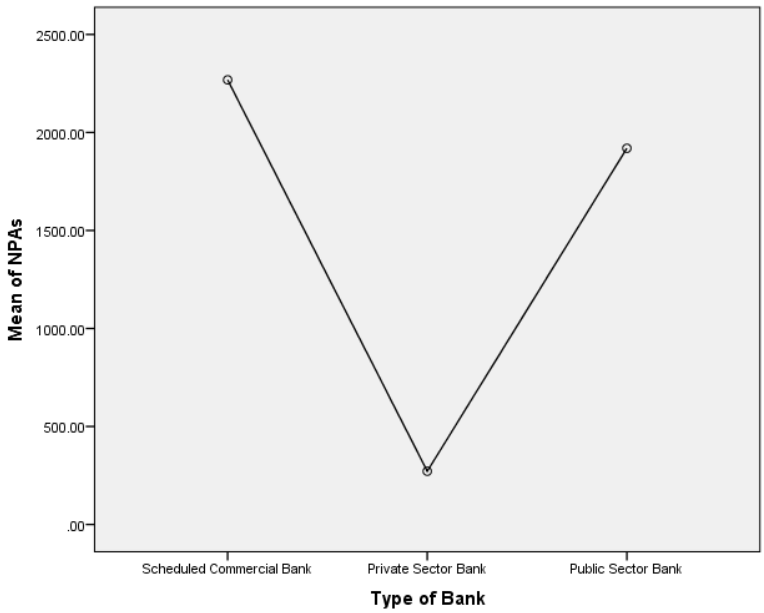
Sources: Researcher's Calculation

After post hoc analysis a subset is given by the test which indicates that NPAs of scheduled commercial bank is different from the private sector bank.

***Means Plots:***

Mean plots are also used to check the differences in Gross NPAs of different selected banks.

**Figure: 3 Means Plots**




This is observed from the above figure that Gross NPAs of scheduled commercial banks is higher than other banks. It indicates that there is need to take some measures to control the NPA s of scheduled commercial banks.

## 6. Conclusion

It can be observed from this study that NPAs of any bank indicates the bank's strength position. If there is more NPAs in any bank it shows that there is need to control this. This study found that there is an increasing trend pattern of NPAs in all the 3 selected banks. It is observed from this study that there is statically significant difference in the Gross NPAs of all the 3 selected banks and Gross NPAs of scheduled commercial banks is higher than other banks. So, thereis needed to take some corrective measures to control the NPA s of scheduled commercial banks.

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