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Research Article

MANAGEMENT OF NON-PERFORMING ASSETS IN PUBLIC AND PRIVATE SECTOR BANKS IN INDIA: A COMPARATIVE STUDY OF SBI AND ICICI BANKS

VSM Srinivas*
PhD Research Scholar, Dept of Business Management,
Dr. B. R. Ambedkar Open University, Hyderabad, India.
Prof. I. Anand Pawar*
Dean, Faculty of Commerce & Head, Dept of Business Management,Dr. B. R. Ambedkar Open University, Hyderabad, India

*Corresponding authors | Received: 03/04/2022 | Accepted: 20/05/2022 | Published: 10/06/2022

Abstract: *Banking sector is the backbone of the Indian economy but the ever growing Non-performing assets are one of the main glitches of Indian banks and they unfavourably reflect the performance of banks. As a result, the earning capacity and profitability of the banks are highly affected. The major reason is large number of credit defaulters in corporate business which hugely affects the profitability and net-worth of banks. But this problem has indirect impact on public and government, they carry this burden. In this study one public sector bank and one private sector bank (State Bank of India from public sector and ICICI Bank from private sector) in India were analysed and compared and compared with the help of key indicators, like, the Gross NPA, Net NPA and Net NPA to Advances over a period of 5 years (2017 to 2021). The study has been analysed with the help of simple percentage of net NPAs to net advances in public sector banks and private sector banks and why the banks NPAs are continuously increasing, how to avoid NPAs in Indian banks and their effects on Indian economy and steps for reducing NPAs.*
Keywords: Non-performing assets, public sector banks, private sector banks, Profitability.

Introduction

According to the Reserve Bank of India (RBI), the banking sector is well-funded and well managed. The financial and economic conditions in the country are much higher than in any other country in the world. Debt risk, market and financial risk research suggests that Indian banks tend to be more resilient and more resilient. The increase in the number of working people and the revenue available may further fuel the demand for banking services in India. Rural banks are expected to prove strong growth in the future Indian banks, including state-owned banks and private companies are actively improving their technology infrastructure to improve customer experience and achieve better competition, internet and mobile banking gaining momentum. The increase in revenue is expected to increase the demand for banking services in rural areas and thus accelerate sector growth. Now they not only get involved in their traditional receiving and lending business but have also shifted their careers to new business ventures such as real estate brokerage, rental, real estate, mutual funds and venture capital business. where banks provide the basis for overspending to increase the internal failure of the financial lossing sector namely Non-Performing Asset (NPA) is one of the concerns of Indian banks. NPAs demonstrate banking performance. The high level of NPAs raises the high potential for large amounts of debt-free debt and the total amount of banks and records the value of assets. The growth of the NPA includes the need for provision, which reduces overall profitability and the number of shareholders.

Non-Performing Assets (NPAs)

Assets which generate periodical income are called as performing assets. Assets which do not generate periodical income are called as non-performing assets. Nonperforming asset (NPA) refers to the division of loans or arrears. The loan is in arrears if the principal or interest payments are late or missed. The loan does not apply when the lender finds that the loan agreement has been breached and the debtor is unable to meet the borrower's obligations. NPAs are further subdivided into substandard, questionable and lost assets based on the RBI criteria. Assets, including leased assets, become inactive if they stop earning money in the bank for a specified period of time.

Gross NPA and Net NPA

Gross non-performing assets refer to the sum of all the loans that have been defaulted by the borrowers within the provided period of ninety days while net non-performing assets are the amount that results after deducting provision for unpaid debts from gross NPA. Thus, the whole NPA is a payment that is considered non-refundable, because the bank has made provisions, and are still kept in the bank account, and the whole NPA is acquired by deducting interest-like items that must be paid but not refunded, part of the payment is accepted and kept in an anonymous account. from Gross NPA.

Literature Review

Non-performing assets (NPAs) have now become an interesting topic of discussion and debate with reference to public and private sector banks. In this regard a study by Brahmaiah (2019) identifies why there are more NPAs in the public sector banks than those in the private sector banks. It evaluates and reviews the policies and practices of scheduled commercial banks in terms of NPA management. It studies the causes of NPAs, such as ownership structure, credit terms, conditions and covenants, nature of loans, kind of borrowers, bank management practices and business cycles. Whereas, Varuna Agarwala and Nidhi Agarw (2019) found in their research that the evaluation of private banking banks showed that the growth rate of NPAs was lower compared to national banks, as well as the

SBI and its partners. Nationalized banks and related SBI banks have failed to address poor lending issues properly because the growth of such loans has been so high.. Moreover, Sengupta and Bardhan (2017) argue that tolerance of the law does not help to solve it and may exacerbate the banking problem by giving banks incentives to postpone NPA recognition and delay in action. Loan restructuring should be a commercial bank decision and should not automatically qualify for regulatory agreements in terms of NPA accreditation. Thus, Khosla and Kumar (2017) found that Indian banks were facing more than Rs. 90,000 crores NPAs were released and operated under loss of benefit. Common national laws were extremely liberal, making it difficult to enforce bad debts. As such, the global economic downturn and its impact on the Indian economy were the main reason for the rise of NPAs (Gupta and Caesar, 2016). In this context Mishra (2016) aims to explore brief comparisons between NPAs of key and non-essential sectors in relation to public sector banks in India based on a second source of information. But Jain et al. (2015) analyzed in their study that significant industry lending of Indian banks through a primary survey also recommended a certain limit in a different key sector.

Significance of the study

The problem of Non-Performing Assets (NPAs) is one of the major and most alarming problems that has shaken the entire banking industry in India such as the earthquake. Like a caterpillar, it has devoured the internal banking system, since time immemorial. It has grown like a cancer and has infected all the organs of the banks. To a large extent, NPAs have established a line of credit provision for potential borrowers, thereby having a negative impact on financial performance and shutting down economic activity in the country. To a lesser extent, the uncontrolled level of NPAs has eroded banks' profits with reduced interest rates and supply requirements, without limiting the recuperation that leads to greater inconsistencies in asset debt. Unfortunately the high level of bank NPAs has a negative impact on profitability, liquidity and solvency position in the banking sector. Therefore this paper entitled ‘Non-Asset Assets in Public Private and Private Sector Banks in India: SBI and ICICI banking research’ is very important in reference to the following objectives that should be achieved.

Objectives

1. To understand the position of non-performing assets in selected public and private sector banks.
2. To analyse the performance of non-performing assets in selected public banks and private banks during 2017 to 2021 years.
3. To suggest measures to control the Non-Performing Assets.

Scope and period of the Study

The Indian banking sector is the backbone of the country. It reflects the financial health and economic condition of the country. The primary function of bank is to lend funds as loan to various sectors such as agriculture, industry, personal and housing etc. and receive deposits from individual customer as well as industrial and institutional customer. Receiving deposit generally involves no risk, since it is the banker who owes a duty to repay the deposit on demand, whereas lending fund always involves very much risk because there is no certainty of repayment of loan. In recent times the banks have become very cautious in extending loans due to fear of rising Non-Performing assets. To knows the NPAs of selected public and private sector banks in India and its comparision with key parameters has a great scope at present scenario. Therefore, the present study on NPAs in public and private sector banks in India with reference to SBI and ICICI banks has done with the data since last five financial years (2017 – 2021).

Research Methodology

The review on earlier literature indicates that existing studies concentrated the performance and impact of NPAs on public and private sector banks in India. But the present study has focused on the comparison of NPAs between public and private sector banks for which this study has selected SBI from public sector and ICICI from private sector. The banks selected for the study are prominent banks among all banks in their respective sectors. For the study, secondary data has been collected using annual reports of "State Bank of India‟ publication including "State Bank of India – Money control" and ICICI bank report of "ICICI Bank Ltd. – Money control" statistical tables related to banks in India and report on currency and finance. Articles and papers relating to NPA published in different business journals, magazines, newspaper, periodicals were studied and data available on internet and other sources has also been used. In the present study, moderate performance (mean), standard deviation (SD), coefficient of variation (CV) and aggregate growth rate (CGR) were assessed for analysis and interpretation of the data. In line with the above objective, the current study is validated to evaluate the various aspects of NPAs in Indian public and private sector banks (selected banks). The study covers the period from 2017 to 2021 has been reviewed.

Sources of Data

The data collected is mainly secondary in nature. The sources of data include the literature published by Indian selected Banks i.e. State Bank of India and ICICI bank, and various other sources like magazines, journals, books dealing with the current banking scenario and research papers.

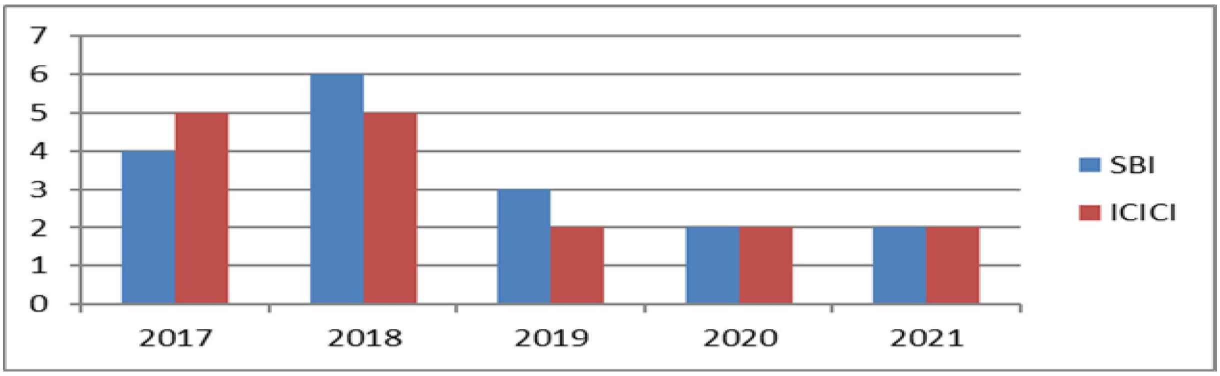
Data Analysis and Interpretation

For this study, secondary data has been collected using annual reports of "State Bank of India" publication including "State Bank of India – Money control" and ICICI bank report of "ICICI Bank Ltd. – Money control" statistical tables related to banks in India and report on currency and finance. Articles and papers relating to NPA published in different business journals, magazines, newspaper, periodicals were studied and data available on internet and other sources has also been used In the present study, moderate performance (mean), standard deviation (SD), coefficient of variation (CV) and aggregate growth rate (CGR) were assessed for analysis and interpretation of the data. In line with the above objective, the current study is validated to evaluate the various aspects of NPAs in Indian public and private sector banks (selected banks).

Table-1: Gross Non-performing Assets (NPA) of SBI and ICICI Banks

Year	SBI		ICICI	
	Gross NPA	Gross NPA%	Gross NPA	Gross NPA%
2017	112,342.99	7.00	42,159.39	9.00
2018	2223,427.46	11.00	53,240.18	0.00
2019	172,753.60	8.00	45,676.04	7.00
2020	149,091.85	6.00	40,829.09	6.00
2021	126,389.00	5.00	40,841.42	8.00
Mean	556801.0	7.4	44549.2	6.0
SD	931955.0	2.3	5246.4	3.5
CV (%)	-4092.5	0.0	-30.1	0.0
CGR	4.0	-10.6	-1.1	-3.9

Source:1. https://www.moneycontrol.com/financials/icicibank/balance-sheetVI/ici02%23ici02;
2. https://www.moneycontrol.com/financials/statebankofindia/balance-sheetVI/sbi%23sbi



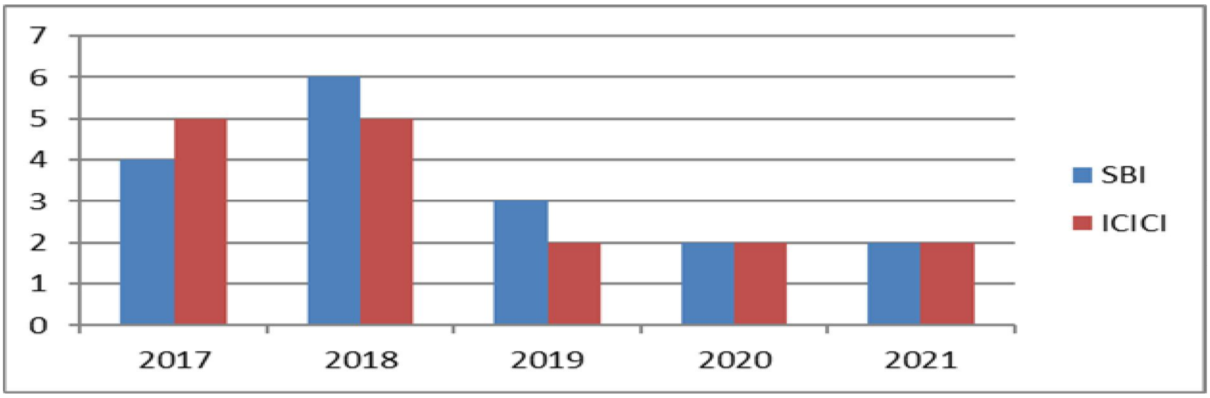
Gross NPAs of SBI and ICICI

The Table-1 shows the Gross Non-Performing Assets (NPA) of SBI and ICICI Banks during the period of 2017-2021 financial years. As per the data it is found that the average performance of Gross NPA of SBI indicates 556801.0, while SD is 931955.0 and CV is -4092.5, the compound growth rate (CGR) is 4.0%. More over the Gross NPA% of SBI during the study period indicate 7.0% in the year 2017 increased to 11.0% in the year 2018, but it continuously decreased to 5.0% in the year 2021. On the other hand the average Gross NPA of ICICI bank during the period 2017 to 2021 years was 44549.2 and the SD was 5246.4, whereas the CV% was -30.1 and the CGR was -1.1%. The Gross NPA% of ICICI bank during the study period indicate 9.0% in the year 2017 decreased to 0.0% in the next year 2018, but it gradually increased to 8.0% in the next three years. This infers that while the Gross NPA of SBI is decreasing from the year 2018, the Gross NPA of ICICI bank is increasing in this period.

Table-2: Net Non-performing Assets (NPA) of SBI and ICICI Banks

Year	**SBI**		**ICICI**	
	Gross NPA	**Gross NPA%**	**Gross NPA**	**Gross NPA%**
2017	58,277.38	4.00	25,216.81	5.00
2018	110,854.70	6.00	27,823.56	5.00
2019	658,947.40	3.00	13,449.72	2.29
2020	51,871.30	2.23	9,923.23	1.54
2021	36,809.72	1.50	9,117.66	2.10
Mean	183352.1	3.3	17106.2	3.2
SD	267325.8	1.7	8795.2	1.7
CV (%)	-203.8	0.0	-100.2	0.0
CGR	-14.2	-27.9	-28.8	-25.1

Source:1. https://www.moneycontrol.com/financials/icicibank/balance-sheetVI/ici02%23ici02;
2. https://www.moneycontrol.com/financials/statebankofindia/balance-sheetVI/sbi%23sbi



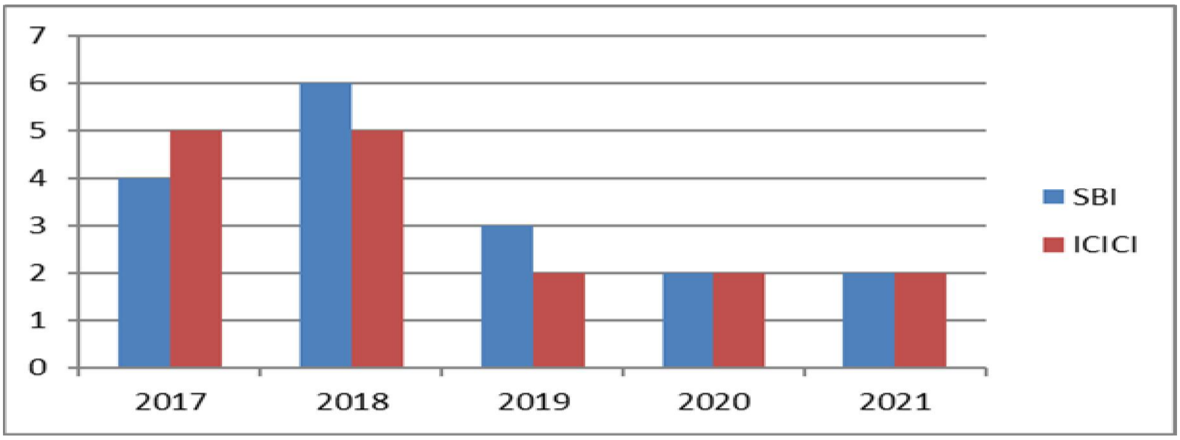
Net NPAs of SBI and ICICI

The Table-2 indicates the Net Non-Performing Assets (NPA) of SBI and ICICI Banks during the period of 2017-2021 financial years. As per the data it shows that the average performance of Net NPA of SBI indicates 183352.1, while SD is 267325.8 and CV is -203.8, the CGR is -14.2%. More over the Net NPA% of SBI during the study period indicate 4.0% in the year 2017 increased to 6.0% in the year 2018, but it decreased to 1.50% in the year 2021. On the other hand the average Net NPA of ICICI bank during the period 2017 to 2021 years was 17106.2 and the SD was 8795.2, whereas the CV% was -100.2 and the CGR was -28.8%. The Net NPA% of ICICI bank during the study period shows 5.0% in the year 2017 decreased to 1.54% in the next year 2020, but again it increased to 2.10% in the year 2021. This infers that in both the public (SBI) and private (ICICI) sector banks the Net NPA decreasing from the year 2018, where the CGR shows -14.2% for SBI and -25.1% for ICICI bank.

Table-3: Net Non-performing Assets (NPA) to Advances (%) of SBI and ICICI Banks

Year	**SBI**	**ICICI**
	Net NPA to Advances (%)	**Net NPA to Advances (%)**
2017	4.00	5.00
2018	6.00	5.00
2019	3.00	2.00
2020	2.00	2.00
2021	2.00	2.00
Mean	3.4	3.2
SD	1.7	1.6
CV (%)	0.0	0.0
CGR	-20.6	-26.3

Source:1. https://www.moneycontrol.com/financials/icicibank/balance-sheetVI/ici02%23ici02;
2. https://www.moneycontrol.com/financials/statebankofindia/balance-sheetVI/sbi%23sbi



Net Non-performing Assets to Advances (%) of SBI and ICICI Banks

The Net Non-Performing Assets (NPA) to Advances of SBI and ICICI Banks during the period of 2017-2021 financial years is presented in the Table-3. As per the data it shows that the average performance of Net NPA to Advances of SBI shows 3.4, while SD is 1.7 and CV is 0.0%, whereas the CGR indicates -20.6%. More over the average Net NPA to Advances of ICICI bank during the period 2017 to 2021 years was 3.2 and the SD was 1.6, the CV% was 0.0 and the CGR was -26.3%. This infers that in both the public (SBI) and private (ICICI) sector banks the Net NPA to Advances decreasing gradually from the year 2018 to 2021 year, where the CGR shows -20.6% for SBI and -26.3% for ICICI bank, where the negative trend found higher in private sector banks than the public sector banks.

Every year by 31 March, banks must report on NPAs after completing the survey. The NPAs will be linked to a global banking portfolio, including development in foreign branches. Whenever NPAs are reported to the RBI, the amount retained in the interest account, should be shown as a deduction for NPAs and the amount of development income when it reaches the remaining NPAs. Banks that do not keep the interest rate claim claim accounted for pre-existing accounts do not work, may offer interest rates to NPAs as a lower note. The amount of technical cancellation, if any, should be reduced in the balance of profits and the total NPAs in order to eliminate any distortion of the number of reported NPAs.

The above study analyzed gross NPAs and percentage of NPA ratio. During the period of 2017 -21 the selected banks mobilized this situation continuously happening that impact the Indian economic system totally collaborated. So the government has taken necessary action for reducing NPAs. The government introduced bail out policy before independence. These impact investment holders to protect them by our investment, because of any deviation of economy or default of bank the bank merge to other bank to provide claim to the specified deposit holder. But now a day the government initiate December 10th 2017 inaugurated bail in concept and the bill was adhoc on parliament house. The government strongly implemented so many solutions to the economic problems raise and yet there is no economic development. Like some of the experts expressed their opinion to appoint special tribunals. More than 10 crores of loans and advances provided to corporate sector take third party guarantee, in case the borrower is unable to clear debts they are given grace period and even then they never respond. For the banker to take legal action on the borrower by forfeiting assets is very long process and even that involves lots of cost and eventually doesn't guarantee solution. In India the scams on corporate sectors and recapitalization of the banks with unsecured loans are very high. At the same time alternative field service like agriculture related sectors, khadi sectors are encouraged to take loans and advances to maximize alternative financial output which eventually becomes another major reason to ever mounting NPAs.

Conclusion

The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the entire economy. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. The banks before lending money to any corporate and any relevant sectors ensure specified field sanction to loans and advances. This study shows that the level of the NPA is much higher compared to the banks of state-owned companies. Although various steps have been taken by the government to reduce the number of NPAs, much remains to be done to address the problem. The level of NPAs in our banks is still high compared to foreign banks. It is not possible at all to have zero NPAs. Bank managers should speed up the recovery process. The problem of repayment is not for small borrowers but for large borrowers and strict policy must be followed to resolve this issue. The government should make some provisions to urgently resolve pending cases and should reduce the mandatory borrowing in key sectors as this is the area that is causing the biggest problem. So the NPA problem requires a lot of effort otherwise the NPAs will continue to kill the banking profits which is completely wrong for the growing Indian economy.

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