

**COMPARATIVE STUDY OF NPAS IN PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS
IN INDIA****Dr. Sachin D. Bansode**Assistant Professor, Department of Commerce, P.D. Lions College, Malad- W, Mumbai- 64
sachindbansode@gmail.com**ABSTRACT**

Banking sector in India is well developed and highly diversified. The banking scenario was dominated by the private sector banks till the government nationalised 14 commercial banks in 1969 and then 6 more banks in 1981. In the year 1991, the government introduced series of reforms in the banking sector and also allowed private sector banks to enter the market. These changes resulted in rapid development of banks in the country. The number of banks branches which were 60220 in 1991 increased to 158373 in the year 2021.

However, one major issue faced by the banks is the rapid rise in NPAs of the public sector banks as well as Private sector banks during the period 2010 - 2021. The present research has focused on the NPAs of both these banks.

The findings of the research revealed that the NPAs of public sector banks are much higher than that of the private sector banks. The analysis of the data shows that the trends in NPAs of both the banks indicated the same pattern. It has generally increased over the period of time reaching maximum level in the year 2017 - 2018. Since then there has been a marginal decline in the NPAs of both the banks.

Higher NPAs of more than 3 percent has much adverse effect on the overall performance of the banks including its profitability. The present NPAs of public sector banks are 9.3% and that of private sector 4.9%. Hence banks should take effective measures to reduce NPAs.

Keywords: NPAs, Privatisation, Nationalisation, Public sector, Private sector banks.

INTRODUCTION

Banks play an important role in the economic development of a country by mobilising resources for investment. In India, the banking sector was heavily dominated by the public sector bank as they accounted for more than 70 percent of the total till the year 1991. The major purpose of expanding the role of public sector bank was to attain financial inclusion and socialistic pattern of society. These banks also provide credit to agriculture, marginal farmers, micro and small scale industries which were neglected by the private sector bank during the period 1971 to 1991. Banks also started branches in the rural areas. As a result of the expansion of the public sector banks there is rapid increase in the share of institutional credit to farmers, weaker section in the rural areas as against the non-institutional credit.

However, one of the major problems faced by the public sector banks is the higher amount of stressed assets and non-performing assets as compared to private sector banks.

According to RBI a non-performing asset (NPA) is the amount of loan (principal and interest) which is overdue for a period of three months or more. NPAs are classified into three categories namely substandard assets (amount over due for less than 12 months), the doubtful assets (the amount remained overdue for more than 12 months and the loss assets (the amount which is not recoverable).

NPA adversely affected the financial performance of the bank. It leads to loss in earnings, poor image of the bank, higher provisions to be made, fall in the stock value of the bank, harsh action by RBI, lack of sufficient fund for other development projects.

The rising NPA also lead to written off the loan and infusion of the fund by the government to recapitalise the banking sector. Banks have written off RS. 11.17 crore during the last six year which include public sector bank's

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Rs. 8.16 lakh crore. The government has infused Rs 3.10 lakh crore in the public sector banks during the period 2016 – 2021. Thus rising NPA results in financial burden on the government.

RESEARCH OBJECTIVES:

The objectives of the present research are:

1. To trace the banking development in the country.
2. To assess the trends in NPAs of the banking sector.
3. To analyse the NPAs of public sector banks and private sector banks.

REVIEW OF LITERATURE

1. **Loriya Chirag (2014)** analysed the profitability of public sector and private sector banks for a period from 2010 to 2014. It covered ten public sector banks and ten private sector banks. The average return on equity among the public sector banks was maximum for Punjab National Bank at 17.21% while in case of the private sector banks it was maximum for Yes Bank at 20.12% and minimum for DCB bank at 3.90%.
2. **Puja Agarwal (2019)** assessed the profitability of public sector and private sector banks during the period 2005 to 2017. The findings of the research revealed that private sector banks have better return on assets. The mean score of the public sector banks during this period was 0.65 while for the private sector banks is 1.44%. In case of return on equity the mean score of public sector banks was 10.8% while that of private sector banks was 16.29%. The net interest margin of public sector banks was 2.78%. while that of Private sector banks was 3.15%. The operating profit of public sector banks 1.75% while that of private sector banks 2.40%. Thus private sector banks have performed better than public sector banks.
3. **Varuna Agarwala (2019)** analysed the NPAs of the Indian Banks during the period 2011 to 2017. The research was based on the available secondary data from RBI publications. The findings of the research revealed that the level of NPAs of private sector banks is much lower than public sector banks including the State Bank of India and its subsidiaries.
4. **Rajeev Jayaswal (2022)** reported that the largest public sector bank namely the State Bank witnessed a jump of 74% in the net profit while other banks like Canara Bank witnessed 89% rise in its net profit. Even other public sector banks made impressive gain in their net profit. State Bank also experienced a decline in net non-performing assets to less than one percent in the second quarter of 2023.
5. **PTI (2023)** reported that public sector banks have made a big turnaround from net loss of Rs. 85890 crore in 2017 to a profit of Rs. 66539 crore in 2022. Even during the period from 2015 to 2020, public sector banks continued to make losses. The government had infused Rs. 310997 crore to recapitalise these banks during the last five years. The better performance of the public sector banks in 2022 is the result of various reforms and initiatives taken by the government. These banks took action against the big defaulters which helped in correcting the imbalance.

RESEARCH METHODOLOGY:

Research methodology adopted in the present research as below:

- a. **Research Design:** The research design adopted for the research is Descriptive research design. It is useful in describing the status of NPA of Banking sector in more meaningful manner.
- b. **Sources of Data:** The research is based on the available secondary data. The major source of this was RBI publications and the data was analysed for the period from 2010 to 2021.
- c. **Data Analysis:** The data is presented in the form of simple tables and charts. Tables are analysed in terms of simple trends, percentage share etc.

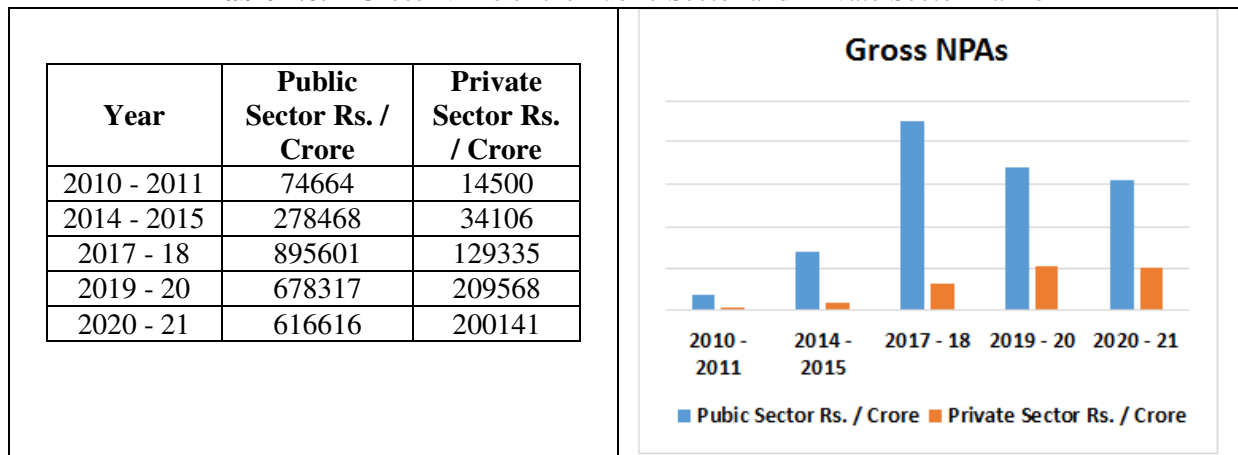
Limitations of the Research: Some of the limitations of the research are:

1. The research is based on the secondary data only. It has not taken into consideration the primary data.
2. The research has focused on the quantitative aspect of the problem and not the qualitative aspects of the problem.
3. The research has covered the overall NPAs of all the public sector and private sector banks. It has not covered details of individual bank.

DATA ANALYSTS: The data analysis details can be seen as below:

1. Gross NPAs of Public sector and Private sector banks: seen from following table.

Table No. 1 Gross NPAs of the Public Sector and Private Sector Banks

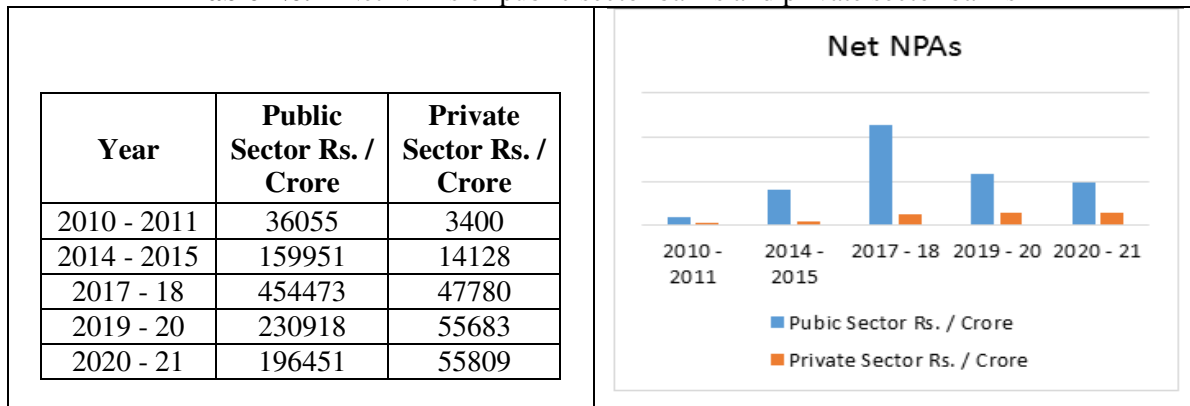


Source: RBI Report 2022.

It can be seen from the above table that the NPAs of the public sector banks which were only Rs. 74664 crores in the year 2010 -11 jumped to Rs. 895601 crore in the year 2017 - 18 and then declined to Rs. 616616 crore in 2020 - 2021. On the other hand, the NPAs of the private sector banks which were Rs. 14500 crore in 2010 - 2011 increased to Rs. 200141 crore in 2020- 2021. The combined NPAs of both the banks were Rs. 816757 crore in 2020 - 2021 in which the shares of public sector banks was 75.49 percent and that of private sector banks was 24.51 percent.

2. Net NPAs of Public sector banks and Private sector banks: seen in following table.

Table No. 2 Net NPAs of public sector banks and private sector banks



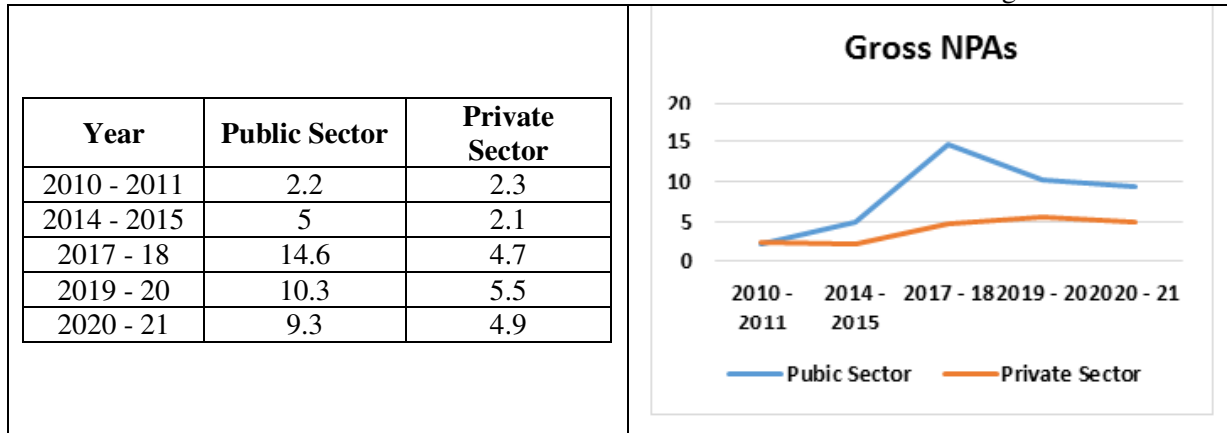
Source: RBI Report 2022

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It can be seen from the above table that the net NPAs of the public sector banks which were Rs. 36055 crore in 2010 - 2011 increased to Rs.196351 crore in 2020 - 2021. On the other hand the net NPAs of the private sector banks which were Rs. 3400 crore in 2010 - 2011 increased to Rs. 55809 crore in 2020 - 2021. The total net NPAs were Rs. 252260 crore in which the share of the public sector banks was 77.87 percent and of the private sector banks was 22.13 percent. Thus the gross as well as the net NPAs of Public sector banks are much higher than the private sector banks.

3. Gross NPA of Public sector banks and Private sector banks as percentage of Total Advances: Can be seen from the following table.

Table No. 3 Gross NPAs of Public Sector Banks and Private Sector banks as Percentage of Total Advances

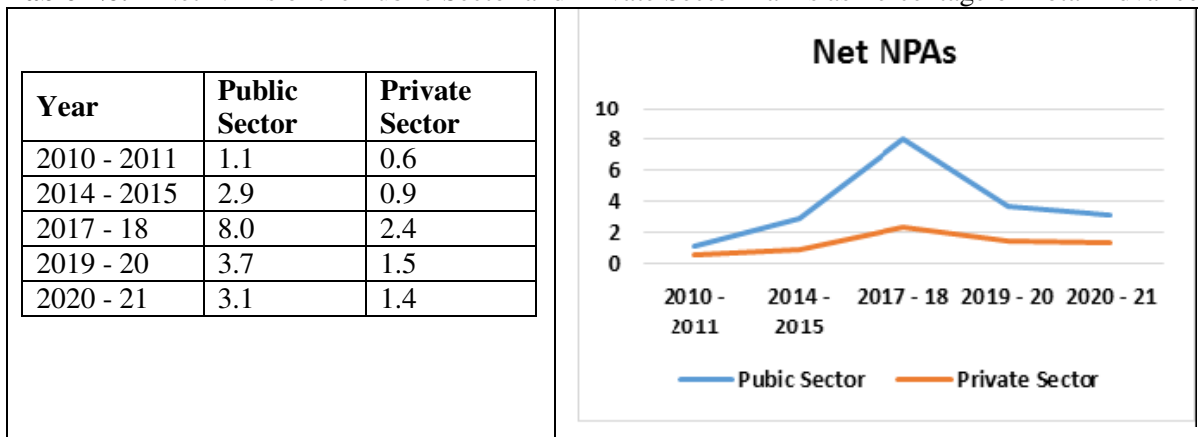


Source: RBI Report 2022

It can be seen from the above table that the gross NPAs of the public sector banks as a percentage of their loan which was 2.2% in 2010 - 2011 increased to 14.6% in 2017 - 18 and then declined to 10.3% in 2019 - 2020 and 9.3% in 2020 - 2021. In case of private sector banks, the gross NPAs in percentage terms were 2.3 on 2010 - 2011 which increased to 5.5% in 2019 - 2020 and then declined to 4.9% in 2020 - 2021. Thus, both the banks have higher gross NPAs in percentage terms as compared to the norms of 2 to 3 percent of tolerable limit.

4. Net NPAs of Public sector and Private Sector Banks as Percentage of Total Advances: The details in this regard can be seen from the following table.

Table No. 4 Net NPAs of the Public Sector and Private Sector Banks as Percentage of Total Advances



Source: RBI Report 2022

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It can be seen from the above table that the net NPAs of the Public sector banks which were 1.1% in 2010 - 2011 increased to 8% in 2017 - 18 and then declined to 3.1% in 2020 - 2021. On the other hand the net NPAs of the Private sector banks which were 0.6% in 2010 - 2011 rose to 2.4% in 2017 - 18 and then declined to 1.4% in 2020 - 2021.

SUMMARY AND CONCLUSION

Following conclusions can be drawn from the above research.

1. India has well developed banking system which includes commercial banks, public sector banks, private sector banks, foreign banks, Cooperatives banks, Regional Rural banks, and so on. However, the progress of the banks till 1947 was slow. There were many banks but most of these banks failed at the market. After independence, the government nationalised 14 major commercial banks in 1969 and 6 more in 1980. Thus banks moved from the private sector domination to public sector domination.
2. The banking scenario changed drastically after 1991 when the government allowed private sector banks to enter the market. This resulted in rapid expansion of the bank's branches in the country. The government also introduced series of banking reforms. The banking sector again moved from public sector domination towards privatisation.
3. There has been rapid increase in the Gross NPAs of Public sector banks as well as the Private sector banks during the period 2010 - 2021. The NPAs of public sector banks are much higher by about three times the NPAs of private sector in 2020 - 2021.
4. There has been rapid rise in the Net NPAs of the public sector as well as the private sector banks. Public sector banks share is 77.87% while that of private sector banks 22.13 in Net NPAs in the year 2020 - 2021.
5. The gross NPAs of the public sector banks as a percentage of their advances rose from 2.2% in 2010 - 2011 to 10.3% in 2019 - 2020. It marginally declined to 9.3% in 2020 - 2021. In case of private sector banks, it was 2.3% in 2010 - 2011 which increased to 5.5% in 2019 - 2020 and then declined to 4.9% in 2020 - 2021.
6. The net NPAs of the public sector banks as a percentage of their loan was 3.1% in 2020 - 2021 as against that of private sector banks at 1.4%.
7. The analysis of the NPAs data for the period 2010 - 2021 revealed that the trends in the NPAs of public sector and private sector banks show the same tendency of rising, reaching maximum and then declining during this period. It was maximum during the year 2017 - 2018 for both public sector and private sector banks. Hence banks need to take drastic measures to control their NPAs as it has adverse effect on their profitability.

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