

COMPARATIVE ANALYSIS OF THE PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS

Dr. Dipak C. Chaudhari

Asst. Professor, Economics,

Abhinav College of Arts, Commerce and
Science, Bhayander (E), Mumbai

Email ID : drdcchaudhari@gmail.com

Abstract:

Profit orientation and a certain degree of autonomy can coexist to improve performances. The problem of non-performing assets has been seriously affected the Indian banking sector. The main reason for the increase in non-performing assets is a goal-oriented approach, which weakens the qualitative aspect of the goal to borrow. Non-performing assets negatively affect profitability and equity ratio, Banking relationships and solvency. This article sheds light on the NPA of the Public and Private sector banks, Problems and countermeasures to promote non-performing assets. Necessary conditions for the management of non-performing assets.

It is necessary to study the distressed assets of public sector banks Increased competition, new information technologies, and therefore a decline Processing costs, erosion of geographic and product boundaries, and less restrictive government regulations all play an important role in the India is in fierce competition with private and foreign banks. This article attempts to analyse the efficiency of public sector banks in Management of non-performing assets.

Keywords : Public Sector banks, NPA, Private sector banks

Introduction:

Our banking industry is a mixture of public, private and foreign ownerships. In 1969 and 1980, Government of India nationalized 14 and 6 major banks respectively After the merger of New Bank of India with Punjab National Bank during the era of Financial Sector Reforms the number of PSBs were 27. There are two kinds of public sector banks i.e. Nationalized Banks and State Bank of India and its associates public banks account for 75% of deposits and 71% of claims in the banking sector. They dominate commercial banking in India One of the most serious problems in the Indian banking system is the non-performing assets (NPA) problem. The NPA is a double-edged sword. Because on the one hand the bank cannot recognize interest on NBO accounts, on the other hand this reduces the profitability of the banks due to the high refinancing costs. A higher NPA affects the confidence of investors, savers, lenders, etc It also leads to poor recycling of funds, which in turn adversely affects credit utilization. Non-repayment of loans affects not only the further availability of credit, but also the financial stability of the organization's credit. An asset is classified as a non-performing asset (NPA) if the borrower fails to make principal and interest payments within 180 days However, as of March 2004, the borrower defaults if the instalments are not paid within 90 days If any advances or credit facility granted by bank to a borrower becomes non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status Reserve Bank of India (RBI) has issued guidelines on provisioning requirement In terms of these guidelines, bank advances are mainly classified into four parts: Standard Assets: Such an asset is not a non-performing



asset Sub-standard Assets: It is classified as non- performing asset for a period not exceeding 18 months
Doubtful Assets: Asset that has remained NPA for a period exceeding 18 months
Losing assets: These are identified by the respective banks or by internal/external auditors or by the Reserve Bank of India (RBI). This article analyses the non-performing assets (NPA) of public sector banks and Private Sector Banks. NPAs are considered as an important parameter for evaluating a bank's performance and financial position.

Objectives:

1. To analyse the trends of Gross and Net NPA of the public and private sector banks
2. To study the gross NPA of the public and private sector banks as percentage of gross advances and percentage of total advances.
3. To study Net NPA of the public and private sector banks as percentage of Net advances and percentage of total advances.
4. To do comparative analysis of gross and Net NPA of the public and private sector banks.

Hypothesis:

H0: There is no significant difference between NPA of Public Sector banks and Private sector banks

H1: Population means of NPA of Public sector banks and Private sector banks are significantly different

Research Methodology:

In order to achieve the research goals, the data for the research are collected from the official website of reserve bank of India. To test the hypothesis independent sample test is used and run-on SPSS.

Comparative Study of the trends of NPA:**Table: 1**

| GROSS AND NET NPAs OF SCHEDULED COMMERCIAL BANKS BANK GROUP-WISE | | | | | | | | |
|---|----------|---------|------------------------------|--|--|--------|--|--|
| (Amount in ₹ Crore) | | | | | | | | |
| Year (end- March) | Advances | | Non-Performing Assets (NPAs) | | | | | |
| | Gross | Net | Gross | | | Net | | |
| | | | Amount | As Percentage of Gross Advances | As Percentage of Total Assets | Amount | As Percentage of Net Advances | As Percentage of Total Assets |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Public Sector Banks | | | | | | | | |
| 2007-08 | 1819074 | 1797401 | 40452 | 2.2 | 1.3 | 17836 | 1.0 | 0.6 |
| 2008-09 | 2283473 | 2259212 | 44957 | 2.0 | 1.2 | 21155 | 0.9 | 0.6 |
| 2009-10 | 2519331 | 2701300 | 59927 | 2.4 | 1.3 | 29643 | 1.1 | 0.7 |
| 2010-11 | 3079804 | 3304433 | 74664 | 2.4 | 1.4 | 36055 | 1.1 | 0.7 |

| | | | | | | | | |
|-----------------------------------|---------|---------|--------|------|-----|--------|-----|-----|
| 2011-12 | 3550389 | 3877308 | 117839 | 3.3 | 2.0 | 59391 | 1.5 | 1.0 |
| 2012-13 | 4560169 | 4472845 | 165006 | 3.6 | 2.4 | 90037 | 2.0 | 1.3 |
| 2013-14 | 5215920 | 5101137 | 228274 | 4.4 | 2.9 | 130635 | 2.6 | 1.6 |
| 2014-15 | 5616717 | 5476250 | 278468 | 5.0 | 3.2 | 159951 | 2.9 | 1.8 |
| 2015-16 | 5821951 | 5593577 | 539956 | 9.3 | 5.9 | 320376 | 5.7 | 3.5 |
| 2016-17 | 5866373 | 5557232 | 684732 | 11.7 | 7.0 | 383089 | 6.9 | 3.9 |
| 2017-18 | 6141698 | 5697350 | 895601 | 14.6 | 8.9 | 454473 | 8.0 | 4.5 |
| 2018-19 | 6382461 | 5926286 | 739541 | 11.6 | 7.3 | 285123 | 4.8 | 2.8 |
| Old Private Sector Banks | | | | | | | | |
| 2007-08 | 113404 | 111670 | 2557 | 2.3 | 1.3 | 740 | 0.7 | 0.4 |
| 2008-09 | 130352 | 128504 | 3072 | 2.4 | 1.3 | 1159 | 0.9 | 0.5 |
| 2009-10 | 156357 | 154136 | 3622 | 2.3 | 1.3 | 1271 | 0.8 | 0.5 |
| 2010-11 | 187296 | 184647 | 3600 | 1.9 | 1.2 | 900 | 0.5 | 0.3 |
| 2011-12 | 232918 | 230079 | 4200 | 1.8 | 1.1 | 1300 | 0.6 | 0.3 |
| 2012-13 | 273120 | 269937 | 5210 | 1.9 | 1.2 | 2000 | 0.7 | 0.4 |
| New Private Sector Banks * | | | | | | | | |
| 2007-08 | 523699 | 518402 | 12997 | 2.5 | 1.4 | 5647 | 1.1 | 0.6 |
| 2008-09 | 575167 | 575328 | 16927 | 2.9 | 1.6 | 7412 | 1.3 | 0.7 |
| 2009-10 | 579535 | 632441 | 17640 | 3.0 | 1.5 | 6506 | 1.0 | 0.6 |
| 2010-11 | 723205 | 797544 | 18241 | 2.5 | 1.3 | 4432 | 0.6 | 0.3 |
| 2011-12 | 871641 | 966403 | 18768 | 2.2 | 1.1 | 4401 | 0.5 | 0.3 |
| 2012-13 | 1151246 | 1143240 | 21071 | 1.8 | 1.1 | 5994 | 0.5 | 0.3 |
| 2013-14 | 1360253 | 1342935 | 24542 | 1.8 | 1.1 | 8862 | 0.7 | 0.4 |
| 2014-15 | 1607339 | 1584312 | 34106 | 2.1 | 1.3 | 14128 | 0.9 | 0.5 |
| 2015-16 | 1972659 | 1939339 | 56186 | 2.8 | 1.8 | 26677 | 1.4 | 0.8 |

| | | | | | | | | |
|---------|---------|---------|--------|-----|-----|-------|-----|-----|
| 2016-17 | 2266721 | 2219475 | 93209 | 4.1 | 2.6 | 47780 | 2.2 | 1.3 |
| 2017-18 | 2725891 | 2662753 | 129335 | 4.7 | 3.0 | 64380 | 2.4 | 1.5 |
| 2018-19 | 3442347 | 3327328 | 183604 | 5.3 | 3.5 | 67309 | 2.0 | 1.3 |

Source: Data Reserve Bank of India Site

* Data of the Old Private sector banks included in to New Private sector banks from the year 2013-14

The advances given by banks are called assets, which generate income via interest and instalments. If the instalment is not paid until the due date, it is called bad loan. If it is extending beyond 90 days, it is termed NPA. The ratio of NPAs of total advances given by bank is a commonly used indicator reflecting the health of banking system. As of June, 2016 the total amount of Gross Non-Performing Assets for public and private sector banks is around Rs. 9.23 lakh crore. The gross NPA of Public sector in the year 2018-19 is 739541 lakh crore and in the same year it is 183604 lakh crore of Private sector banks. This indicate that the performance of public sector banks compare to Private Sector banks is poor in terms of NPA. Gross NPA of the Public sector and Private Sector banks as a percentage of advances is continuously rising since 2007-08 but rise of the public sector banks compare to Private sector banks are higher. Gross NPA of the Public sector banks rise from 2.2 to 11.6 Percent of gross advances from the year 2007-08 to 2017-18. The same is rise from 1.3 to 7.3 percent of the total assets. In case of Private sector banks Gross NPA rise from 2.5 to 5.3 Percent of gross advances from the year 2007-08 to 2017-18. As percent to the total assets the gross NPA of the Private sector bank rise from the year 2007-08 to 2017-18 is 1.4 to 3.5 Percent. Both indicators showing that the rise of the NPA of public sector bank is too much high compare to Private sector banks.

Net NPA as percent to net advances in the year 2007-08 for the public sector bank was 1 percent and reached to 4.8 percent in the year 2017-18. The same for the Private sector banks increased from 1.1 to 2.0 percent. This reveals that the rise in the NPA of Public sector bank is high. Let's Analyze the data of net NPA as percentage of net total asset for the public sector banks it was rise from 0.6 to 2.8 percent from the year 2007-08 to 2017-18. In case of private sector banks same is rise from 0.6 to 1.3 percent. It shows the net NPA as percentage to total asset for both the public and private sector bank was same in the year 2007-08 but the rise in to NPA of public sector bank seems very and almost double compare to private sector banks.

Hypothesis Testing:

Independent Samples Test

| Levene's Test for Equality of Variances | | t-test for Equality of Means | | | | | | |
|---|------|------------------------------|----|-----------------|-----------------|-----------------------|---|-------|
| F | Sig. | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference | |
| | | | | | | | Lower | Upper |
| | | | | | | | | |

| | | | | | | | | | | |
|-------------------------------------|-----------------------------|--------|------|-------|--------|------|---------|---------|--------|---------|
| NPA As Percentage of Gross Advances | Equal variances assumed | 23.297 | .000 | 2.294 | 22 | .032 | 3.06667 | 1.33687 | .2918 | 5.83916 |
| | Equal variances not assumed | | | 2.294 | 12.410 | .040 | 3.06667 | 1.33687 | .16452 | 5.96881 |

To test the above stated hypothesis independent sample test is used. The p value provides evidence against the null hypothesis. The smaller the p value, the stronger the evidence that we should reject the null hypothesis. In other words, It provides the smallest level of significance at which the null hypothesis would be rejected. Here the t value is 2.294 with 22 degrees of freedom. The p value is 0.032, which is less than the level of significance (0.05) and hence we reject the null hypothesis. Therefore, we can conclude that there is significant difference in the NPA of public and private sector banks.

Conclusion: In this study, we assess the performance of Indian public sector banks. Research shows that the overall performance of Indian public sector banks is relatively poor, as determined by the NPA analysis. To control the NPA, government intervention must be minimized, and the government's pro-capitalist policies ultimately protect corporate interests that persuade them to avoid on-time loan repayments. With the help of certain measures, PSB should improve their functioning. PSBs are facing increasing competition, not only from private and foreign banks, but also from an increasing number of non-bank financial intermediaries such as mutual funds and other capital market entities. Competitive pressures to improve banking efficiency have led to a shift from traditional paper-based banking to electronic banking, the use of information technology, and a shift in focus from physical banking to the use of ATMs. Financial reforms will surely prove that banks across all sectors in India will improve their performance and better achieve their mission and objectives. This shows that the financial performance of banks, especially those in the public sector, is strongly and positively affected by the proportional relationship between deposits and investment advances, the ratio of deposits to investment and NPA (asset management). The results suggest that it may be necessary for management to take all necessary decisions to improve financial performance, which is fundamental to the operational efficiency of any bank. Like operational efficiency, asset management and the scale of interest income also affect the financial performance of a bank. Public banks are heavily influenced by the strict regulation of policy makers in case of gross NPA and net NPA.

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