



Journal of Social Commerce

Vol. 1 No. 1, 2021 (Page: 1-7)

DOI: <https://doi.org/10.56209/jommerce.v1i1.4>

A Study on Non-Performing Assets (NPA) of Selected Private Sector Banks in India

Priyanka D. Meghanathi¹, Seema M. Dodiya²

^{1,2}Ph.D. Research Scholar, Department of Commerce, Saurashtra University Rajkot- 360005

Article History

Submitted: 17 November 2021, Revised: 24 December 2021, Accepted: 28 December 2021

Keywords

Gross Non-Performing Assets, Net Non-Performing Assets, Profitability, Private Sector Banks

Abstract

The banking industry is critical to the success of any economy since it satisfies societal requirements. A bank is a financial entity that provides its clients with a variety of banking and other financial services. India's banking industry has been grappling with mounting non-performing assets. The rise of Non-Performing Assets has a significant impact on a bank's profitability. This research was undertaken in order to analyze the non-performing assets of a sample of chosen private sector banks in India. For that purpose, the researcher chose the top four private sector banks, namely HDFC bank, ICICI bank, Axis bank, and Indus land bank, based on their net sales from 2016-17 to 2020-21. To analyze non-performing assets in a selected private sector in India, gross non-performing assets (NPAs), net non-performing assets (NPAs), and net profit ratios were chosen. To test the hypothesis, the researcher employed a one-way ANOVA with a significance level of 5%. The study's primary conclusions include that HDFC bank's average GNPA and average NNPA are the lowest in the industry, while ICICI banks are the highest.

Introduction

The banking sector contributes significantly to the overall financial system by mobilizing deposits from households all throughout the country and making these money accessible for investment purposes, whether via the purchase of assets or the provision of loans to businesses and individuals. In today's world, the banking sector has emerged as a crucial component of any country's economic development (Haggard & Moon, 2018; Leigland, 2018), as well as being important to the financial well-being of the whole world, including governments, corporations, and people (Mahendru, 2020; Ponchio et al., 2019). Banks are financial

¹Corresponding Author: Priyanka D. Meghanathi

Email: meghanathipriyanka@gmail.com

²Seema M. Dodiya

Email: dodiyaseema@gmail.com

institutions that receive deposits and channel those deposits into lending operations, either directly via loaning or indirectly through the use of financial instruments such as derivatives and capital markets.

A bank is a link between clients who have capital surpluses and customers who have capital shortfalls, respectively. It performs the function as a medium of trade. Banks provide their services with the intent of making a profit, and they are expected to manage those services in a highly competitive market environment. Banks are financial intermediaries that offer services such as money transmission, exchange, safeguarding, and lending of money. Just like other companies, banks must make a profit in order to live and thrive. A healthy banking sector is essential for a thriving economy to thrive. The unsound status of the banking industry may have a negative impact on other industries. Non-performing assets (NPAs) are one of the most pressing issues facing Indian banks. The performance of a bank is reflected in its non-performing assets.

Non-Performing Assets (NPA)

Non-Performing Assets (NPA) are assets that are not profitable. Non-performing assets are simply the amount of money owed by a client that has not been repaid. When a loan is not repaid by the borrower, it is classified as non-performing. Since interest is not paid via the borrower, the asset no longer generates money for the bank as a consequence of the transaction. A loan is treated as though it were in arrears in such situations. NPAs are defined as any advances or loans that have been past due for more than 90 (ninety) days according to the Reserve Bank of India (RBI).

A circular from the Reserve Bank of India in 2007 said that an asset becomes non-performing when it fails to produce revenue for the bank.

The Reserve Bank of India (RBI) instituted the 90 (ninety) days overdue norm for the purpose of designating non-performing assets from the fiscal year ended March 31, 2004 in order to be more in accordance with international practices and standards.

Gross NPA

Gross non-performing assets (GNPA) are a subset of gross non-performing assets. Gross non-performing assets (NPA) are advances that are regarded unrecoverable for which the bank has made provisions, but which are nonetheless maintained in the bank's books of account. It demonstrates the extent to which a bank's loans are at danger of not being repaid. When interest is not received on a loan for a period of three (3) months, the loan is classified as Non-Performing Assets. A highly high Gross Non-Performing Assets ratio indicates that the quality of the bank's assets is in very bad condition.

Net NPA

Net Non-Performing Assets (NPA) is an abbreviation for Net Non-Performing Assets. Net non-performing assets are generated by subtracting things such as interest due but not recovered, part payment received and held in the form of a suspense account from gross non-performing assets. Gross non-performing assets are the sum of all non-performing assets. To put it another way, banks make funds accessible for certain loans that have gone sour. It is the portion of non-performing loans that has not been accounted for in the books that is known as net non-performing assets. Net non-performing assets (NPAs) are a more accurate reflection of a bank's overall soundness.

Review of Literature

Mohnani & Deshmukh (2013) have analysed A Study of Non-Performing Assets on Selected Public and Private Sector Banks. The aim of the present research work is to find out trends in NPA Level as well as highlight and assess the comparative position and variation of NPA ratio in selected public sector banks and private sector banks. Researchers have selected Public Sector Banks namely, State Bank of India & Punjab National Bank and Private Sector Banks namely, HDFC Bank & ICICI Bank. They have used secondary data for the study. The period of the current research work is from the year 2002-03 to 2011-12. For the purpose of analysis of the data researchers have make use of Measure of Central Tendency, Frequency Distribution, Standard Deviations, Coefficient of Variation. Here, researchers have concluded that Gross NPA ratio of Punjab National Bank is less and it has been decreased over the period in comparison to State Bank of India. While in the Private Sector Banks there were HDFC Bank has better performance in comparison to ICICI Bank.

Ms. Deepti (2015) has examined A Study on Non-Performing Assets of State Bank of India. Present study gives the information regarding solve NPA Problem. The purpose of the current research work is to assess the non-performing assets of State Bank of India and its effect on profitability. Researcher has selected period for the study that is from the year 2007-08 to 2013-14 by using secondary sources of the data. Present research has been evaluated by utilizing tables and coefficient of correlation. In the existing study it is analysed that because of several steps taken by the government of India Non-Performing Assets levels were reduced.

Chaitra & Vasu (2018) have conducted Comparative Study on Non-Performing Assets of Selected Private and Public Sector Banks. The motive of the current research is to study the trends of NPAs, credit evaluation procedure of customers and also compare the NPAs of private and public sector banks. Researchers have used the both the sources of the data i.e., primary data and secondary data by applying deliberate or purposive sampling technique. The period of five years that is from the year 2013-14 to 2017-18 selected for the study. They have made use of several parameters for the purpose of measuring the performance such as Gross NPA, Net NPA, Return on Assets, growth of Net NPA and growth of Return on Assets. On the basis of the data analysis, they have concluded that public sector banks have the highest rate of NPA but as far as the individual growth of NPA is considered ICICI of private sector bank had the highest growth of NPA.

Infanta & Lohasowmiya (2021) have analysed A Comparative Study on Non-Performing Assets of Selected Public and Private Sector Banks. The objectives of the current research work are to study NPA trend, make a comparative study of NPAs and analyse relationship between profit and NPA in selected public and private sector bank. They have used secondary data for the study covering period of five years i.e., 2016 to 2020 from two public and two private sector banks. Here, ratio analysis, percentage analysis, correlation coefficient and line diagram used for the present research work. Researchers have concluded that it is not possible to completely eliminate NPA from the bank. But it has to take steps to reduce the NPA level from the bank.

Satpal (2014) has examined A Comparative Study of Non-Performing Assets in Public and Private Banks in the New Age of Technology. The purpose of the current research work is to study NPA trend and also make a comparative study of NPA's of public and private sector banks. Present research work is based on analytical study of 3 public sector banks and 3 private sector banks, using secondary sources of the data for the period of five years i.e., 2009-2013. For the purpose of analysis of the data researcher has used Gross NPA, Percentage of Gross NPA to Gross Advances, Net NPA and Percentage of Net NPA to Net Advances. From the above study it is analysed that extent of NPA is comparatively very high in public sector banks as compared to private sector banks.

Research Methods

Research design gives overview of roadmap for reaching to the conclusion. Following research design have been adopted for reaching to the findings of the study.

Objectives of Study

- To study the GNPA trend of last five years of selected private sector banks in India.
- To study the NNPA trend of last five years of selected private sector banks in India.
- To study the Net profit trend of last five years of selected private sector banks in India.

Hypotheses for The Study

H_0 = There is no significant difference in trends of GNPA among selected private sector banks during the study period.

H_0 = There is no significant difference in trends of NNPA among selected private sector banks during the study period.

H_0 = There is no significant difference in trends of Net Profit Ratio among selected private sector banks during the study period

Period of the Study

The period of the study has been considered as 2016-17 to 2020-21 which consist of 5 years' time period.

Selection of Samples

This study included top four private sector banks like HDFC, ICICI, Axis Bank, IndusInd Bank based on net sales. The sampling technique is non probability in which judgement sample method has been selected.

Data Collection

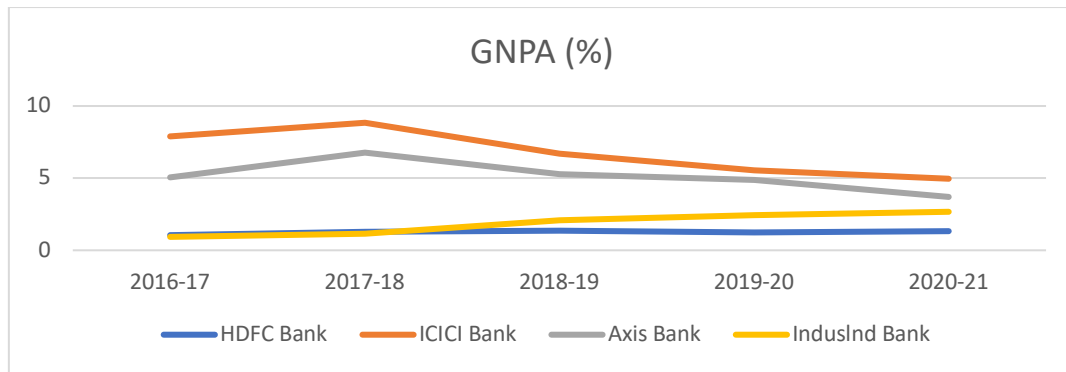
Present research work is based on secondary source of data. The data is collected from bank journals, bank reports, various books, financial statements of banks, websites etc.

Data Analysis and Interpretation

Gross NPAs (in Percentage)

Year	HDFC Bank	ICICI Bank	Axis Bank	IndusInd Bank
2016-17	1.05	7.89	5.04	0.93
2017-18	1.30	8.84	6.77	1.17
2018-19	1.36	6.70	5.26	2.10
2019-20	1.26	5.53	4.86	2.45
2020-21	1.32	4.96	3.70	2.67
Average	1.258	6.78	5.126	1.864
Maximum	1.36	8.84	6.77	2.67
Minimum	1.05	4.96	3.70	0.93

Source: www.moneycontrol.com

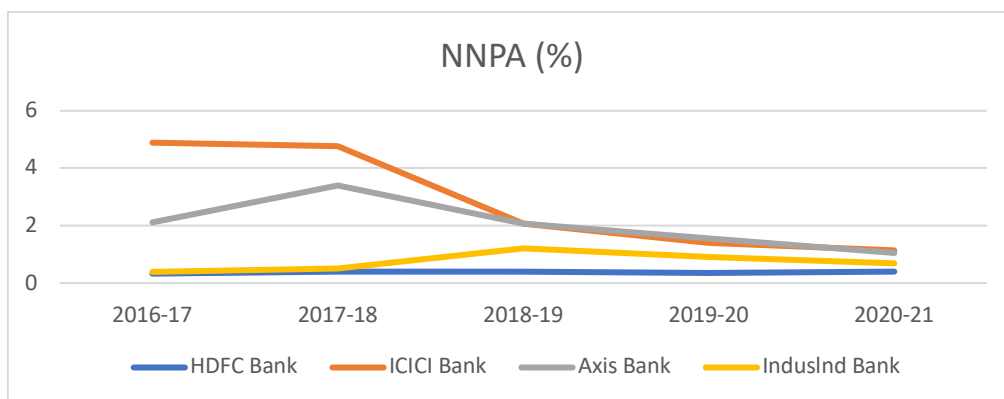


Above table and chart showed Gross Non-Performing Assets of selected private sector banks in India during the study period from 2016-17 to 2020-21. In HDFC the GNPA shows static trend during the study period. In ICICI Banks shows continuous decreasing trends after 2017-18. In Axis Bank shows increasing trend up to 2017-18 and then started to decrease. In IndusInd Bank maximum GNPA is 2.67 in the year 2020-21 and minimum in the year 2016-17 it shows continuous increasing trend. In Average GNPA maximum 6.78 and minimum 1.258 of ICICI and HDFC respectively.

Net NPAs (in Percentage)

Year	HDFC Bank	ICICI Bank	Axis Bank	IndusInd Bank
2016-17	0.33	4.89	2.11	0.39
2017-18	0.40	4.77	3.40	0.51
2018-19	0.39	2.06	2.06	1.21
2019-20	0.36	1.41	1.56	0.91
2020-21	0.40	1.14	1.05	0.69
Average	0.376	2.854	2.036	0.742
Maximum	0.40	4.89	3.40	1.21
Minimum	0.33	1.14	1.05	0.39

Source: www.moneycontrol.com

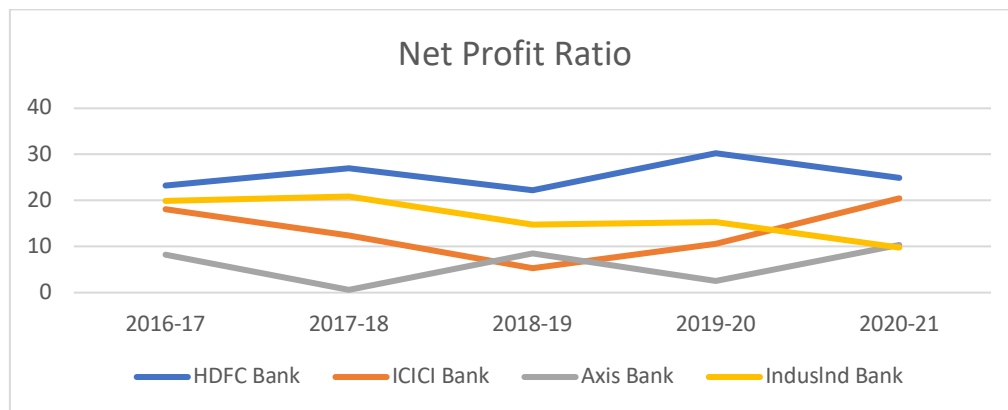


Above table and chart shows Net Non-Performing Assets of selected private sector banks in India during the study period. In HDFC Bank shows maximum NNPA is 0.40% in the year 2017-18 and 2020-21 and minimum is 0.33% in the year 2016-17 it indicates zig-zag trend during the study period. In ICICI Bank the trend of NNPA is continuous decrease it shows good position but average NNPA of ICICI bank is highest compare to other selected banks. In Axis bank the trend of NNPA is maximum in the year 2017-18 and then started to decrease. In IndusInd Bank the NNPA is started to increase up to 2017-18 and become maximum and then started to decrease from that year. Average NNPA of HDFC is lowest compare to other bank it indicates good position.

Net Profit Ratio (in Percentage)

Year	HDFC Bank	ICICI Bank	Axis Bank	IndusInd Bank
2016-17	23.17	18.09	8.26	19.90
2017-18	26.93	12.33	0.60	20.86
2018-19	22.22	5.30	8.50	14.82
2019-20	30.25	10.6	2.59	15.34
2020-21	24.97	20.46	10.35	9.78
Average	25.502	13.356	6.06	16.14
Maximum	30.25	20.46	10.35	20.86
Minimum	22.22	5.30	0.6	9.78

Source: www.moneycontrol.com



Above table and chart showed net profit ratios of selected private sector banks during the study period from 2016-17 to 2020-21. In HDFC bank highest net profit is 30.25% in the year 2019-20 and lowest is 22.22% in the year 2018-19. The net profit of HDFC is indicated zig-zag trend during the study period. In ICICI Bank net profit ratio is continuous decrease up to 2018-19 and then started to increase from that period. In Axis Bank minimum net profit ratio is 0.60% in the year 2017-18. In IndusInd Bank the trend of net profit is increased up to 2017-18 and then started to decrease from that period. Maximum average net profit ratio is 25.502% and minimum is 6.06% of HDFC and Axis Bank respectively.

One-Way Anova as Statistical Tool

For the testing of hypotheses researcher used One-ANOVA Test at 5% level of significant and test result as follows.

Ratio	F- Value	F- Crit	P-Value	H ₀ Accept / Reject
Gross NPA	31.52237	3.238872	5.99E-07	H ₀ Rejected
Net NPA	6.221751	3.238872	0.005277	H ₀ Rejected
Net Profit Ratio	15.31967	3.238872	5.79E-05	H ₀ Rejected

Source: Calculated from MS Excel

Above table shows one -ay ANOVA test for Gross and net NPAs and Net Profit ratios. In GNPA, NNPA and in net profit ratio calculated value is higher than table value so null hypothesis of above all is rejected and we can conclude that there is a significant difference in the trend of GNPA, NNPA and Net profit of selected private sector banks during the study period.

Conclusion

Average GNPA of HDFC bank is lowest compare to other bank and average GNPA of ICICI bank is highest compare to other banks. GNPA of ICICI bank and Axis bank are continuous decrease from 2017-18 it shows good position. GNPA of IndusInd is continuous increase from 2016-17. Average Net NPA of HDFC bank is also lowest compare to other banks. In ICICI banks its highest during the study period. In HDFC bank the trend of NNPA is fluctuate. In ICICI bank NNPA is continuous decrease. In Axis bank in the year 2017-18 NNPA is highest compare to all the year and then started to decrease. In IndusInd bank trend of NNPA is fluctuate during the study period. Average Net profit ratios of HDFC bank is 25.502% is highest compare to other banks. Average Net profit ratios of Axis bank 6.06% lowest. In HDFC bank the trend of net profit is fluctuate during the study period. In ICICI bank net profit is continuous decrease up to 2019-20 and then started to increase. In Axis bank and IndusInd bank the trend of net profit is fluctuated.

References

- Chaitra, K. S. & Vasu, V. (2018). Comparative Study on Non-Performing Assetss of Selected Private and Public Sector Banks. *International Research Journal of Management Sociology & Humanity (IRJMSH)*, 9(3), 128-144.
- Haggard, S., & Moon, C. I. (2018). 2. The State, Politics, and Economic Development in Postwar South Korea. In *State and society in contemporary Korea* (pp. 51-94). Cornell University Press.
- Infanta, A. V. & Lohasowmiya, S. (2021). A Comparative Study on Non-Performing Assets of Selected Public and Private Sector Banks. *A Journal of the History of Ideas and Culture*, 38(5(II)), 118-124.
- Leigland, J. (2018). Public-private partnerships in developing countries: The emerging evidence-based critique. *The World Bank Research Observer*, 33(1), 103-134.
- Mahendru, M. (2020). Financial well-being for a sustainable society: a road less travelled. *Qualitative Research in Organizations and Management: An International Journal*.
- Mohnani, P. & Deshmukh, M. (2013). A Study of Non-Performing Assets on Selected Public and Private Sector Banks. *International Journal of Science and Research (IJSR)*, 2(4), 278-281.
- Ms. Deepti. (2015). A Study on Non-Performing Assets of State Bank of India. *International Research Jouornal of Management Sociology & Humanity (IRJMSH)*, 6(11), 78-83.
- Ponchio, M. C., Cordeiro, R. A., & Gonçalves, V. N. (2019). Personal factors as antecedents of perceived financial well-being: evidence from Brazil. *International Journal of Bank Marketing*.
- Satpal. (2014). A Comparative Study of Non-Performing Assets in Public and Private Sector Banks in the New Age of Technology. *International Journal of Current Engineering and Technology*, 4(4), 2468-2475.