

# A COMPARATIVE STUDY ON QUALITY OF ASSETS BETWEEN PUBLIC AND NON PUBLIC SECTOR BANKS

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## **Abstract**

*Asset Quality is an important parameter that determines the performance of the banks. Non-performing assets and restructured assets become measurable parameters for quality of assets in banks. Nonperforming assets are like cancerous cells that grow in a bank and affect their financial statements. The financial discipline of the people is in a declining pace and hence the term "Non-performing asset" is a major concern for the banks and also the regulator to RBI. This article attempts to compare the quality of assets between different sectors of banks. Twenty six banks that are having the balance sheet more than or equal to 100000 crores were selected for the study. These twenty six banks were grouped under various heads like public sector banks, SBI and associated banks, Private sector banks and Foreign Banks. The parameters used for measuring the quality of assets are Growth of Non-Performing Assets (NPA), NPA Coverage ratio, ratio of net NPA to net advances and Restructured Assets (RA) to net advances by employing analytical approach. The research tools used are ratio analysis, analysis of variance and comparative analysis. From the analysis it was found that the performance of private sector banks and foreign banks were better when compared with SBI and associated banks and public sector banks with respect to quality of assets.*

**Key words:** *Non-Performing Assets (NPA), NPA Coverage ratio, Restructured Assets (RA).*

## **Introduction**

Nonperforming Assets is a terminology that becomes an eye widening topic of for the banks. The reason behind is that it affects the banking sector and its performance to a wider extent. In simple Non Performing Asset (NPA) can be explained as the assets which do not generate periodical income. A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. It is also known as "non-performing loan".The quality and performance of advances have a direct bearing on the profitability and viability of banks. The higher the amount of non-performing assets, the weaker is the bank's revenue stream. NPA has been given wide importance from the year 2009 especially after Subprime Crisis and its impact in world economy. For instance, banks now follow 90-day delinquency norm as against 180-day earlier.

Possible reasons for a bank to acquire NPA in its financial statements are indicated below:

- i. Improper selection of borrowers activities
- ii. Weak credit appraisal system
- iii. Industrial problem

- iv. Inefficiency in management of borrower
- v. Slackness in credit management and monitoring
- vi. Lack of proper follow up by bank
- vii. Recession in the market

## Literature review

Sharma (Sep 2005)<sup>[1]</sup>, in his paper makes an attempt to study the problem of Non Performing Assets (NPAs) in public sector banks and also its impact on the performance of these banks. Impact of NPAs on the profitability of the banks is analysed by applying multiple regression model. Impact of NPAs on the productivity, achievement of capital adequacy level, funds mobilization and deployment policy of the bank is also analysed. NPAs not only affect the performance of the bank but also put irreparable harm to the entire economy. It endangers the very foundation of the credit system. Concerted efforts are required at RBI, banks and Judiciary level to control the menace of NPAs. Efficient legal framework, improvement in credit appraisal and monitoring skills of banks and strong political will could enable the Indian banks to find satisfactory solutions to the problem.

Kalra, R. (2012)<sup>[2]</sup> has stated that Non-Performing Assets (NPAs) in the Indian banking system have assumed astronomical dimensions through the introduction of the concept of asset classification, income recognition and provisioning norms by Reserve Bank of India to assess the credit risk of a bank. High level of NPAs in banks has attracted public as well as foreign financial institutions to analyze the reasons for it. In this paper, an attempt has been made to find out the various factors responsible for the huge NPAs. Further, the different characteristics of NPAs on the basis of industry and area (i.e., state-wise as well as region-wise) have been analyzed.

Gowri, C. M., Venkata, R. M., & B, B. R. (2013)<sup>[3]</sup> have conducted a study which emphasizes on the management of nonperforming assets in public sector commercial banks in India by covering asset classification norms, identification of non-performing assets, provisioning against advances etc. Public sector commercial banks provide finance to needy covering various sectors including priority, no-priority and public sectors. In this junction, the study is intended to trace the movements and recovery of non-performing assets in public sector commercial banks during 2006-2011 with the backdrop of financial crisis happened during 2008.

## Statement of the problem

NPA affects the profit of bank and other financials of the bank. So here, the problem is to identify the causes for the NPA and to finalise the action plan to reduce the NPA.

### **Need for the study**

- Quality of assets is one of the major problems of Indian economy.
- Various sectors contribute to the total NPA in India.  
Identify the impact of NPA in the bank and suggest ways to reduce it.
- According to RBI, the banks are requested to classify the assets and compute the gross advances, net advances, gross NPAs and net NPAs. RBI has made provisions also for NPAs.

### **Objectives of the study**

- To compare the quality of assets of various banking sectors
- To determine the effect of NPA and Restructured assets on various sector of the banks
- To suggest the corrective measures to be taken by the banks to improve the quality of assets.

### **Scope of the study**

- The study covers the large nationalised banks in India with balance sheet figure more than or equal to 100000 crores.
- For measuring the quality of assets, the non-performing assets of the banks and the restructured assets of the banks are taken into consideration. The study helps to improve knowledge about banking sector, specifically on quality of assets

### **Research methodology**

Analytical research method was followed to specify the relationship between different sector of the banks and the Quality of the assets.

The variables used to calculate the asset quality are

- Year on Year growth of Non-performing assets
- Net NPA to Net advances
- Restructured assets to loans
- NPA coverage ratio

### **Research tools used**

The tools used in this research includes

- Ratio Analysis
- Rank analysis
- Analysis of Variance.

### Sampling method

Among various nationalized scheduled commercial banks in India, 26 banks were taken for the study. The banks were selected in such a way that the banks' balance sheets are more than are equal to 100,000 crores. The banks were then grouped under various sectors like Public sector banks, SBI and its associates, Private Sector Banks and Foreign Banks and hence 17 public sector banks, 4 SBI and associated banks, 3 private sector banks and 2 foreign banks were the taken for the study.

The results of the analysis are as flows:

Table:1 Quality of Assets - Average growth of NPA

	<b>Average NPA Growth</b>	<b>Average Net NPA/ Net Advances</b>	<b>Average RA to loans</b>	<b>NPA Coverage in percentage</b>
Public Sector Banks	2.673(III)	1.956(IV)	4.223(IV)	63.14(IV)
SBI and its Associates	3.403(IV)	1.788(III)	3.035(III)	64.05(III)
Private Sector Banks	1.093(I)	0.443(I)	0.677(II)	78.61(II)
Foreign Banks	1.322(II)	0.900(II)	0.015(I)	81.50(I)

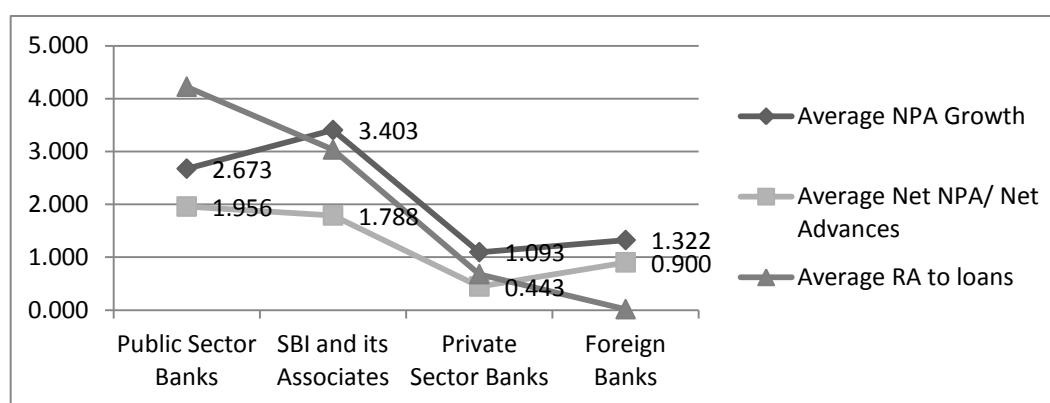


Fig:1 Average growth of NPA

The quality of assets of the 26 banks was analyzed under average NPA growth, Net NPA to Net Advances, Restructured Assets to loans and NPA coverage. The average value of the above parameters were grouped under different sector of the banks and compared. The ranks after comparison were given in braces. The public sector banks secured fourth rank in most of the parameters. Private sector banks ranked first in the parameters like average NPA growth and Average Net NPA to net advances. Foreign Sector banks topped the list in Average Restructured assets to loans and NPA coverage in percentage.

Table :2 Quality of assets – Net NPA to Net advances

S. No			Total NPA Growth	NPA Coverage	Net NPA/ Net Advances	RA/Avg Loans
1	<b>Public Sector</b>	Allahabad Bank	4.897	50	3.19	6.52
2		Andra Bank	3.02	49.6	2.45	4.47
3		Bank of Baroda	2.224	68.24	1.28	2.4
4		Bank of India	2.742	60.92	2.35	3.18
5		Bank of Maharashtra	1.228	83.7	0	2.96
6		Canara Bank	2.452	61.35	2.18	5.7
7		Central Bank of India	3.209	47.75	2.9	3.99
8		Corporation Bank	1.64	62.1	1.19	3.28
9		Dena Bank	1.829	69.6	1.39	3.05
10		Indian Overseas Bank	3.72	58.89	2.51	5.25
11		Punjab National Bank	2.87	58.83	2.34	4.66
12		Syndicate Bank	1.58	83.41	0.76	4.14
13		Union Bank of India	2.059	65.21	1.61	2.08
14		United Bank of India	3.766	62.5	2.86	3.5
15		UCO Bank	4.234	52.08	3.36	7.94
16		Vijaya Bank	2.509	68.3	1.3	3.41
17		IDBI Bank	1.454	70.83	1.58	5.26
18	<b>SBI and Associates</b>	State Bank of India	3.344	66.58	2.1	2.24
19		State Bank of Patiala	2.975	62.6	1.62	4.75
20		State Bank of Hyderabad	3.375	65	1.93	2.58
21		State Bank of Travancore	3.919	62	1.5	2.57
22	<b>Private Sector Banks</b>	Axis Bank Ltd	1.103	79.15	0.36	1.36
23		HDFC Bank Ltd	0.855	79.91	0.2	0.001
24		ICICI Bank Ltd	1.3219	76.78	0.77	0.67
25	<b>Foreign Banks</b>	HSBC Ltd	0.542	81.43	0.33	0
26		CITI Bank	2.102	81.56	1.47	0.03

Source: (Business Today, 2013)

RA= Restructured Assets

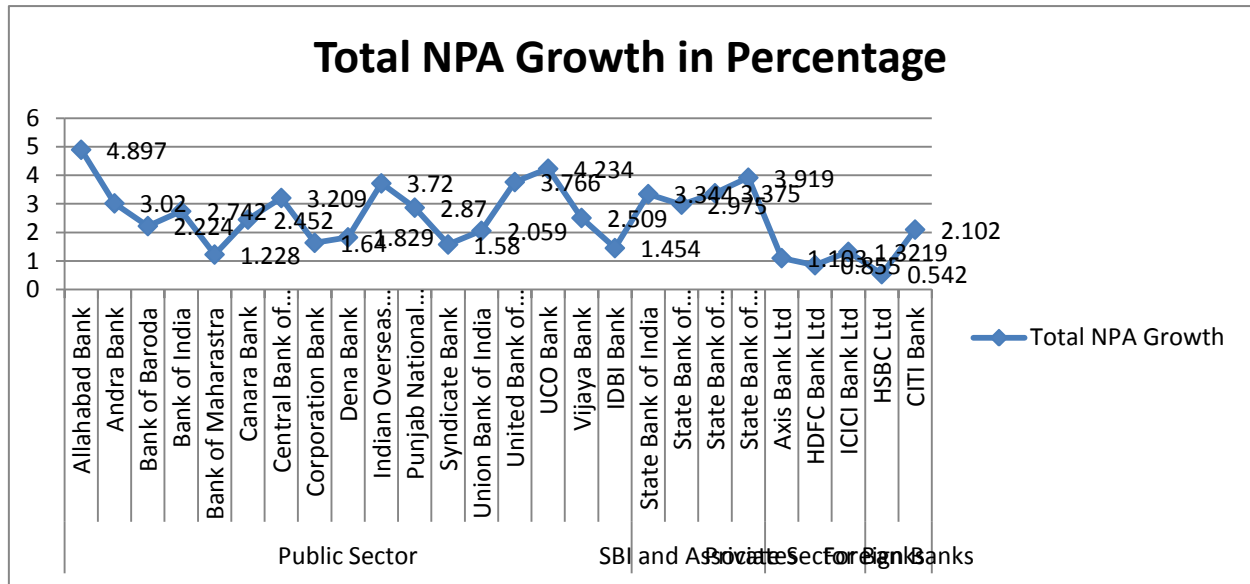


Fig: 2 Total NPA growth in Percentage

The total NPA growths of the 26 banks are compared in the above chart. In X axis the banks are listed and in Y axis the year on year growth of Non-performing assets are plotted. The chart shows that there is a considerable increase in the Non-Performing assets of all the banks. HSBC Bank which falls under the foreign sector banks is having the lowest NPA growth of 0.542 percentage and Allahabad Bank which falls under the category of public sector banks has the highest growth in NPV of 4.897 percentage.

**Table: 3 NPA Coverage**

S.No			<b>NPA Coverage</b>	<b>Rank</b>	<b>Mean Rank</b>
1	<b>Public Sector</b>	Allahabad Bank	50	24	15.71 (IV)
2		Andra Bank	49.6	25	
3		Bank of Baroda	68.24	11	
4		Bank of India	60.92	20	
5		Bank of Maharashtra	83.7	1	
6		Canara Bank	61.35	19	
7		Central Bank of India	47.75	26	
8		Corporation Bank	62.1	17	
9		Dena Bank	69.6	9	
10		Indian Overseas Bank	58.89	21	
11		Punjab National Bank	58.83	22	
12		Syndicate Bank	83.41	2	
13		Union Bank of India	65.21	13	
14		United Bank of India	62.5	16	
15		UCO Bank	52.08	23	
16		Vijaya Bank	68.3	10	
17		IDBI Bank	70.83	8	
18	<b>SBI and Associates</b>	State Bank of India	66.58	12	14.75 (III)
19		State Bank of Patiala	62.6	15	
20		State Bank of Hyderabad	65	14	
21		State Bank of Travancore	62	18	
22	<b>Private Sector Banks</b>	Axis Bank Ltd	79.15	6	6.00 (II)
23		HDFC Bank Ltd	79.91	5	
24		ICICI Bank Ltd	76.78	7	
25	<b>Foreign Banks</b>	HSBC Ltd	81.43	4	3.50 (I)
26		CITI Bank	81.56	3	

The above table shows the Nonperforming asset coverage ratio of the Banks. The ratio will provide an understanding about how much a bank has recovered out of Rs. 100 of a Non Performing Asset. From the above analysis it is clear that Bank of Maharashtra is having highest NPA coverage ratio and it is ranked one. The Central Bank of India which is having the lowest NPA coverage ratio of 47.75 % is ranked twenty sixth position. Also the mean ranks of different sector of the banks were compared, the rank order of NPA Coverage ratio is Foreign Banks> Private Sector Banks> SBI and Associated Banks> Public Sector banks.

**Table: 4(a) One way Anova**

Net NPA to net advances

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Public Sector	17	1.9559	.91577	.22211	1.4850	2.4267	.00	3.36
SBI & Associated Banks	4	1.7875	.27609	.13804	1.3482	2.2268	1.50	2.10
Private Sector	3	.4433	.29400	.16974	-.2870	1.1737	.20	.77
Foreign Banks	2	.9000	.80610	.57000	-6.3425	8.1425	.33	1.47
Total	26	1.6742	.92981	.18235	1.2987	2.0498	.00	3.36

**Table: 4(b) Anova**

Net NPA to net advances

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	7.144	3	2.381	3.621	.029
Within Groups	14.469	22	.658		
Total	21.613	25			

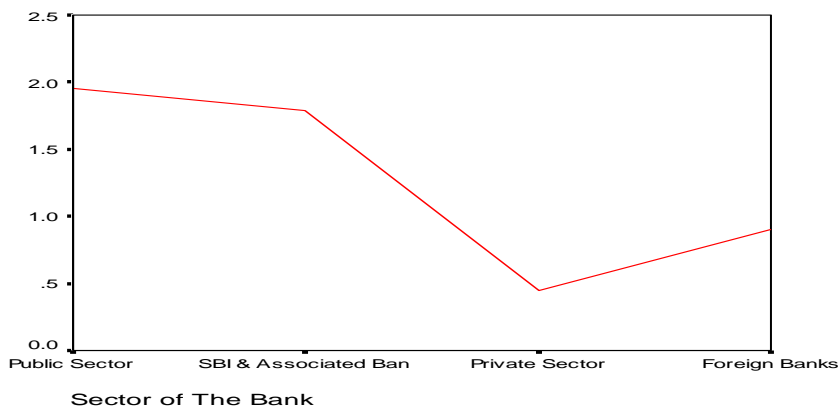


Fig:3 Sector of the Bank



Analysis of Variance was done for the ratio of Net NPA to Net Advances of 26 different banks grouped according to their sector.

The Hypothesis for the ANOVA test was designed as:

H0: There is no significant difference between Sector of the banks and Net NPA to Net Advances ratio

H1: There is significant difference between sector of the banks and Net NPA to Net Advances ratio

The significant value for the ANOVA is 0.029 which is less than 0.05. Hence null hypothesis is rejected. This means that there is significant difference between the sector of the banks and the Net NPA to Net Advances ratio. Private Sector Banks > Foreign Banks > SBI and Associated Banks > Public Sector Banks.

## Findings

- HSBC Bank which falls under the foreign sector banks is having the lowest NPA growth of 0.542 percentage and Allahabad Bank which falls under the category of public sector banks has the highest growth in NPV of 4.897 percentage.
- The public sector banks secured fourth rank in most of the parameters. Private sector banks ranked first in the parameters like average NPA growth and Average Net NPA to net advances. Foreign Sector banks topped the list in Average Restructured assets to loans and NPA coverage in percentage.
- Bank of Maharastra is having highest NPA coverage ratio and it is ranked one. The Central Bank of India which is having the lowest NPA coverage ratio of 47.75 % is ranked twenty sixth position. The mean ranks of different sector of the banks were compared, the rank order of NPA Coverage ratio is Foreign Banks> Private Sector Banks> SBI and Associated Banks> Public Sector banks.
- The significant value for the ANOVA is 0.029 which is less than 0.05. Hence null hypothesis is rejected. This means that there is significant difference between the sector of the banks and the Net NPA to Net Advances ratio. The performance rank order in case of net NPA to net advances ratio is Private Sector Banks > Foreign Banks > SBI and Associated Banks > Public Sector Banks.

## Recommendations

The quality of assets of various sector of the banks are compared under different parameters like average NPA growth, Net NPA to Net Advances, Restructured Assets to Loans and NPA Coverage. While comparing average NPA growth private sector banks ranked first followed by

the foreign banks, the SBI and its associated banks ranked fourth position this shows that the private sector banks are performing comparatively better. The SBI and its associated banks could follow the private sector bank's strategies to reduce the NPA growth. While comparing the net NPA to net advances the public sector banks ranked the last position the public sector banks can bench mark the best banking practices of the other banks to reduce the NPAs and improve their quality of assets. The increase in gross NPA can be reduced by advancing loans to customers who are truly worthy of repaying it with interest i.e, the bank should make strict the eligibility criteria for customers who can avail loans and also check their background details. The bank should have serious check on the gross NPA, which tends to increase in the next five years. A separate system should be formed within the bank specially to monitor the loans, their holders and the recovery of the loans in the bank.

Bank employees need to give more attention on the activities of the NPAs and slow recovery of overdue loans. The employees should be trained in such a way that that they are able to make a fast recovery of loans.

## Conclusion

The assets of accompany should perform be it a home, a state, a nation or any other organisation. If the assets are not performing there is no use in having such assets. Thus Non-performing assets (NPA) form a black mark to any organisation. In banks it affects the overall performance. The study has identified where the bank lacks in managing Non-performing assets (NPA) and what causes it to increase. Eradicating these causes and a thorough monitoring will reduce the NPA level of the bank. NPA is not just a problem for bank, but also bad for the economy of the country. The money which is locked in NPA is not available for productive activities. It adversely affects the profit of the bank and result in higher rate of their diligent credit customer. Step should be taken appropriately on time to avoid NPAs. Qualitative appraisal, supervision and follow ups should be taken for the present advanced to avoid further NAPs. It is essential to restructure the strategies for recovery process; this will improve bank general capabilities and meet the prudential requirements

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