



Study of Non-Performing Assets (NPAS) of public sector banks and private sector banks in India

Dr. Roop Kishore Singhal,

Professor, International Institute of Management Studies, Pune

Prof. Kapil Kapadia,

Assistant Professor, International Institute of Management Studies, Pune

Abstract

The rise of non-performing assets, often known as NPAs, is a major cause for worry in the Indian banking industry for a number of years. "A non-performing asset in India is any money advance or credit that has been past due for more than ninety days," according to the Reserve Bank of India's definition. According to the Reserve Bank of India's circular form from 2007, "an asset becomes non-performing when it ceases to generate income for the bank." (RBI circular, 2007). Non-performing asset has been a chronic problem within the Indian banking system for a very long time. These assets have a significant impact on both financial stability and economic development. (Rao, M., & Patel, A.,2015). The purpose of this research study is to carry out a detailed comparative analysis of NPAs in the public sector banks (psbs) and the private sector banks in India. The research makes use of a combination of methodologies, combining quantitative analysis of information with qualitative insights to better comprehend the factors that contribute to NPAs and evaluate the efficiency of NPA management solutions in these two industries.

Keywords: Non-Performing Assets, Private Sector Banks, Banking Sector, India, NPA Management, NPA Trends, NPA Causes, Banking Regulation, Public Sector Banks, Financial Stability, Loan Portfolio, Risk Assessment, Economic Impact, NPA Resolution, Comparative Analysis, Regulatory Framework, Banking Policies, Asset Quality, Financial Health, Macroeconomic Consequences

DOI Number: 10.48047/nq.2022.20.8.nq221104

NeuroQuantology 2022; 20(8): 10771-10780

10771

1. Introduction

Non-performing assets, more often referred to as defaulted loans, have become known as a persistent and severe problem within the parameters of the banking industry of India. NPAs are an abbreviation for "nonperforming assets."(Malyadri & Sirisha, 2011) The problem of non-performing loans, also known as NPAs, has attracted a significant amount of attention and concern owing to the far-reaching consequences it has for the financial viability of banks and, by extension, the economy as a whole in India. This study will conduct an in-depth investigation of non-performing loans inside the Public sector and Private sector Banks that makeup India's banking environment. These two subsets are

different from one another, yet they are intertwined.(Kaur & Saddy, 2011)

Following the implementation of economic liberalisation in the early 1990s, the banking industry in India went through a period of deep change, which was highlighted by the introduction of private sector banks. (Kandpal, V.,2020). This transformation resulted in the creation of a competitive environment, a transition from a banking sector that was mostly controlled by the state to one that was mixed, and a change in the dynamic of risk management practices. with considering this, the comparison of nonperforming loans between private sector banks and public sector banks provides a fascinating and



pertinent area for in-depth investigation and analysis.

With the use of this study, I want to make a contribution to information about non-performing loans in the banking sector of India that is both meaningful and substantial. (Gupta, 2012)The findings of this research provide important insights that may be used by policymakers, regulators, and financial institutions to develop comprehensive strategies to reduce the impact of nonperforming assets (NPAs) and successfully manage these assets. This research takes critical relevance in supporting informed decision-making and maintaining financial stability within the Indian banking industry as NPAs continue to impair the financial health of banks and the larger economic environment.

2. Research Problem

To what degree and in what ways do Non-Performing Assets vary between private sector and public sector banks in India, and what are the primary elements contributing to these differences? In addition, what are some of the important variables contributing to these differences?

This research topic outlines the primary aim of the study, which is to analyse and evaluate the levels and drivers of NPAs in both kinds of banks, namely public sector banks and private sector banks, within the framework of the Indian banking system. Given the character of the issue, it seems likely that the research will attempt to determine whether or if there are any differences in the levels of NPA and will also investigate the underlying reasons that could be responsible for these differences.

3. Objectives of the Study

To Analyze Trends Over Time	Find patterns, variations, and possible causative variables. This will allow you to understand how trends have changed over time.
To Identify Key Determinants	Through research and analysis, determine the major determinants and drivers of NPAs in both kinds of banks, including the composition of loan portfolios, economic circumstances, lending practises, and regulatory considerations.
To Assess Impact on Financial Health	Evaluate how NPAs impact the financial health, profitability, and net worth of banks, and determine if there are significant differences in these impacts.
To Examine Regulatory Compliance	It is necessary to investigate the degree to which public and private sector banks comply with regulatory rules and provisioning norms linked to nonperforming assets.
To Assess and Compare levels of NPAs	Evaluate and contrast the levels of NPAs in public sector and private sector banks over a certain period of time by using the proper indicators of financial performance.

10772



To Explore Strategies for NPA Management	These strategies and measures may include loan recovery by risk assessment, and reorganisation methods.
To Enhance Decision-Making	In order to promote informed decision-making for the purpose of ensuring the continued sustainable development and stability of the banking sector, it is important to provide meaningful information to bank management, policymakers, and policy regulators.
To Contribute to Banking Literature	Contribution to the current body of information in the area of banking and finance by giving insights into the dynamics of non-performing loans.

10773

Table1: Objectives of the study

4. Research Methodology

In order to explore and evaluate NPAs in India’s public sector as well as private sector banks, this study makes use of a quantitative research approach. Quantitative research enables the gathering and analysis of numerical data connected to nonperforming assets (NPAs), which paves the way for an in-depth investigation into the similarities and differences that exist between the two categories of banks.

The maximum percentage of the information required for this research will come from financial reports, such as balance sheets, income statements, and annual reports, that have been compiled by chosen private sector and public sector banks in India that are currently in operation. In addition, in order to support the study, secondary data sources like government reports, business journals, and current academic research on banking and NPAs will be explored.(Agarwala & Agarwala, 2019) Data will be gathered for a certain time period, which would often encompass many years, in order to provide an in-depth analysis of the patterns and shifts that occur in NPAs over the course of time. To pick a sample of banks that is representative of the all banks, a technique called purposive sampling is used. This technique will take into account a variety of characteristics, including the amount of assets, geographic representation, and the availability of data.

5. Banking sector of India

The banking industry is characterised by its variety, consisting of numerous kinds of banks such as public sector banks, private sector, foreign, and regional rural banks. India also has a large number of regional rural banks that serve rural areas. There were 91 designated commercial banks actively doing business in the nation as of the year 2021.

Public sector banks, often known as PSBs, are owned and administered by the government of India. Of the PSBs, 12 are considered to be nationalised banks, while many others are considered to be subsidiaries of the State Bank of India (SBI).(V. R. Singh, 2016) Banks such as HDFC, ICICI Bank, Kotak Mahindra Bank, Axis bank and Yes Bank all fall under the category of being strong representatives of the private sector.

Indian consumers and companies have access to a wide variety of financial services provided by international banks with headquarters located outside of India. Cooperative banks, which are often organised as cooperative organisations, are very important to the functioning of rural and agricultural financial systems.(Mohnani& Deshmukh, 2013) As of the year 2022, India will have more than 150,000 bank branches and more than 250,000 automated teller machines (ATMs), which will make it easier for more people to use financial services.



Financial inclusion has been pushed forward by government programmes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which has resulted in the establishment of millions of bank accounts, especially in rural and neglected regions. In addition, mobile banking and online banking have seen tremendous expansion because to the widespread adoption of digital payment systems such as the Unified Payments Interface (UPI).

However, the banking industry of India has also been plagued by NPAs, which has prompted measures to deal with them and bring them to a lower level.(Rao & Patel, 2015) The expansion of credit within the banking sector in India remains an essential indication of the overall economic activity, and there are monitoring mechanisms in place to evaluate the state of the economy.

6. NPAs in Public banks of India

Non-performing assets in public sector banks (PSBs) of India are a serious issue, and the banks and the government have been making continual attempts to manage and decrease them. This was a topic of ongoing efforts by both the banks and the government. NPAs, commonly referred to as bad loans, are loans that have become overdue or are in danger of defaulting on their payments.

The following are some major issues about non-performing loans in India's public sector banks:

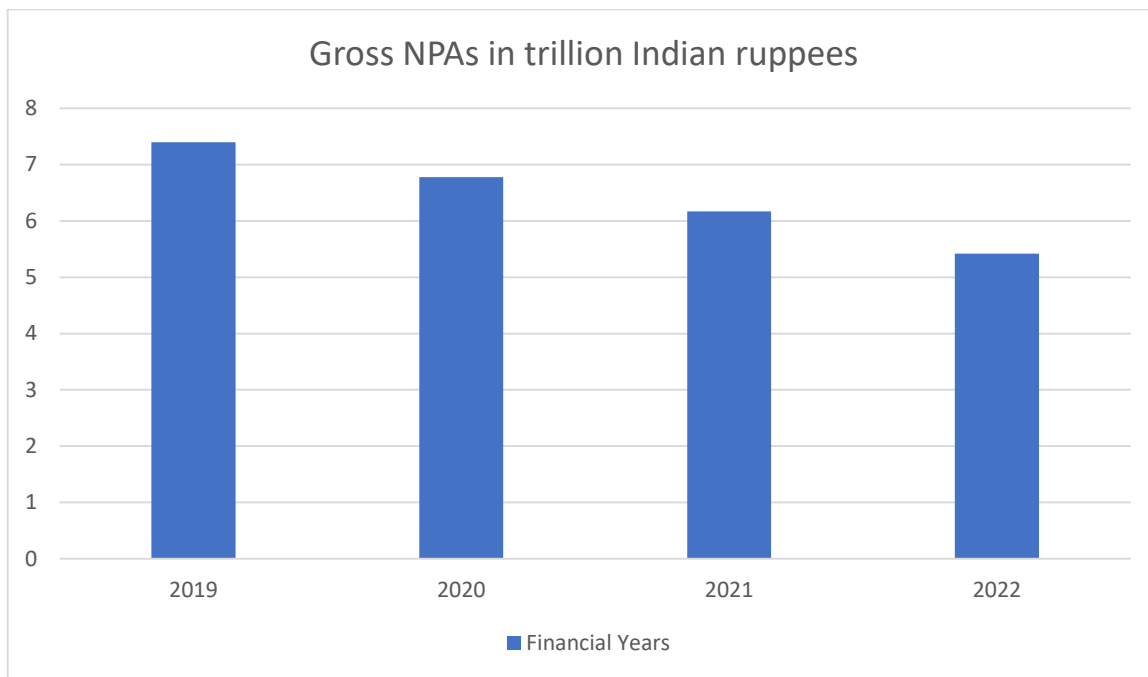
- **High Levels of Nonperforming Asset:** The country's public sector banks had been struggling with high levels of non-performing assets (NPAs) for a number of years previous to 2022. The primary causes of these nonperforming assets (NPAs) were identified as being economic slowdowns, defaults by corporations, and practises regarding lending.
- **Interventions by the Government:** To solve the NPA problem, the government

has taken a number of different actions. The "Insolvency and Bankruptcy Code" (IBC) was enacted in order to speed up the settlement of problematic debts by instituting a procedure with strict time limits.(Ibrahim & Thangavelu, 2014) In addition, the recapitalization of PSBs was begun in order to enhance the financial soundness of these public sector banks. Government is also introducing various programmes.

- **Asset Quality Reviews:** In order to recognise and identify NPAs in a more open and honest manner, the Reserve Bank of India carried out asset quality reviews. Because of this, a precise estimate of the magnitude of problematic loans held by PSBs was possible.
- **Provisioning and Write-offs:** Public Sector Banks (PSBs) have been writing down assets and making provisions for nonperforming assets (NPAs), which was harming their profitability.(Vibhute et al., 2021) In addition, write-offs were done in order to clean up the balance sheets and put more of the company's attention on the recovery efforts.
- **Resolution methods:** In order to recoup as much as possible from nonperforming assets (NPAs), public sector banks were actively engaged in a variety of resolution methods. These procedures included debt restructuring and one-time settlements on the financial accounts.
- **Support from the Government:** The government, via programmes like the "Indradhanush Plan," intended to pump money into PSBs and strengthen the governance, risk management, and lending practises of these institutions.

10774





10775

Figure 2: Gross NPAs

According to the graph, the NPAs are reducing constantly due to a number of decisions taken by the banks as well as the government.

7. NPAs in private banks

If compared to public sector banks (PSBs), the percentage of nonperforming assets (NPAs) held by private sector banks in India was much lower. (Saluja & Lal, 2010) The stricter lending practises and risk management that private sector banks adhere to have, on average, allowed them to keep their asset quality in better shape.

The following are some major issues related nonperforming assets in India's private sector banks:

- **NPA Levels That Are Lower:** Historically speaking, banks operating in the private sector have been known to record NPA levels that are lower than their counterparts operating in the public sector. (Kumar et al., 2021) This was a result of their more vigilant risk assessment, more stringent lending requirements, and more effective recovery methods.

- **Prudent Lending Practises:** When providing loans, private sector banks often engaged in more stringent due diligence than public sector banks, concentrating on creditworthiness and collateral; this contributed to a reduction in the incidence of nonperforming assets.
- **Internet Transformation:** Many private banks had made considerable investments in digital banking and technology, which enabled them to more efficiently monitor and manage their loan portfolios, which contributed to decreased NPAs.
- **Maintenance of Asset Quality:** In order to safeguard their reputation and continue to entice clients, private sector banks continued to place an increased focus on the quality of their assets. (VERMA et al., 2022) This included taking preventative steps as well as ongoing monitoring of the loan accounts so that defaults might be avoided.
- **Corporate Governance:** The corporate governance framework of private sector banks often featured increased autonomy,

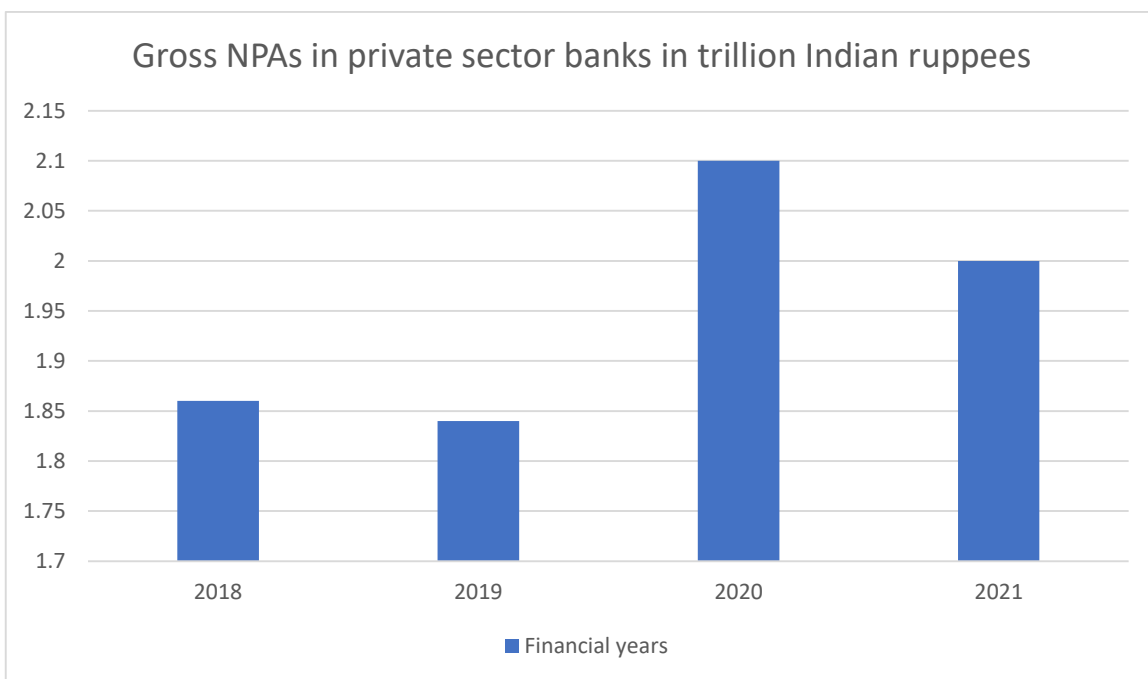


efficient decision-making procedures, and a culture that was motivated by performance, all of which assisted in the management of nonperforming assets (NPAs).

- **Exposure to Particular Industries and Sectors:** The degree of nonperforming loans (NPAs) in private sector banks may differ from one another based on the level of exposure such banks have to particular

industries and sectors. Many times, financial institutions that had varied portfolios were better prepared to deal with the ups and downs of the economy.

- **Requirements Issued by the Government:** Nonperforming asset (NPA) recognition, the provisioning process, and disclosure requirements were issued by the RBI, and private banks were required to comply with these regulations.



10776

Figure 3: Gross NPAs in Private banks of India

According to the graph, the NPAs are fluctuating but are comparatively less than public sector banks.

8. Data Analysis

In the examination of the nonperforming assets (NPAs) held by public sector banks and private sector banks, statistical analysis and descriptive data analysis play an essential part in gaining a knowledge of the topic and providing the most important takeaways.(A. Singh, 2013) The following is an illustration of how the analysis of data and descriptive stats are used in this study:

Data Collection and Preparation:

Before entering into the analysis of the data, it is very vital to first gather and organise all of the required data. This entails collecting

financial information from public sector banks as well as private sector banks for a predetermined time period, which is often several years. The data would contain information on different types of loans, provisions, recoveries, and other pertinent financial measures.

Below statistical tools are used for the data analysis of NPAs in both private and public banks of India:

- **Mean (Average):** The average NPA level over the study period in both types of banks.
- **Standard Deviation:** A measure of the dispersion of NPA data points, indicating how much individual data points deviate from the mean. (Kandpal, V. 2020)



	MEAN	Standard Deviation
Business loan	4.55	.49
Education Loan	4.4	.47
Agriculture loan	4.74	.44
Housing loan	4.1	.69
Personal loan	1.2	.29
Change of Government policies in India for public and private banks	2.7	.90
Bad decision-making by the top management in companies	3.2	.95
Policies made to reduce overall costs incurred	3.7	1.02
Less or no communication with the borrower about debt recovery by the banks in India	4.3	.69
Natural disasters in different parts of the country	3.1	.84
Debt recovery	3.7	.81

10777

Table 2: Data analysis (Kandpal, V.,2020).

A detailed analysis was carried out as part of the research into nonperforming assets (NPAs) of public and private sector banks (PVBs) in India. The goal of this research was to determine the NPA levels, trends, and contributing variables in both types of institutions. The purpose of the research was to shed light on the dynamics of non-performing loans (NPAs), as well as their influence on the banking industry and possible policy consequences. The following is a synopsis of the research, followed by its conclusion which is written below:

9. Summary

The nonperforming assets (NPAs) in the Indian banking sector are a big problem, according to the beginning of the research. This is a reflection of the overall health of the business as well as the economy as a whole.(Agarwal & Preeti, 2022) NPAs are an indicator of loans that are either at danger of default or have already defaulted, and they have an effect on the profitability, financial stability, and asset quality of banks. The study examined the NPAs found in PVBs and PSBs in an effort to understand the differences and the variables that contributed to them.

The study of the data brought to light many important findings:

- **NPA Levels:** Historically speaking, PSBs have reported much higher NPA levels in comparison to PVBs. This was linked to variables such as disparities in lending practises and risk management as well as economic slowdowns, company defaults, and variances in risk management.
- **Lending Practises:** Private sector banks displayed more strict lending practises, focused on creditworthiness, collateral, and effective recovery methods, which led to reduced NPA levels. This resulted in lower NPA levels.(Hussain et al., 2021)
- **Digital Transformation:** PVBs had made considerable investments in digital banking and technology, which enabled them to more efficiently monitor and manage their loan portfolios, further contributing to improving asset quality.
- **Interventions on the Part of the Government:** Both of these industries were impacted by interventions on the part of the government, such as the Insolvency and Bankruptcy Code and it



calculates to recapitalize in order to deal with NPAs.(Infanta & Lohasowmiya, 2021) However, PSBs were more damaged than others because of the more exposure they received.

10. Conclusion

The result of the research was that, despite the fact that non-performing loans (NPAs) are a problem across the banking sector in India as a whole, there are clear differences in the NPA levels of India's PVBs and PSBs. PVBs were able to keep their asset quality at a higher level as a result of the responsible lending practises, rigorous risk management, and technology innovations that they implemented.(Rao & Patel, 2015) On the other hand, public sector banks (PSBs) were confronted with difficulties that resulted from legacy concerns, bigger exposures to certain industries, and regulatory limits.

The need of continuing efforts to resolve nonperforming assets (NPAs), enhance lending practises, and tighten regulatory control was emphasised in the report. It was advised that effective techniques for NPA management be developed via a collaborative effort involving banks, regulatory organisations, and the government.(Dadhich et al., 2021) In addition, the results highlighted the significance of industry diversification as well as digital transformation as important factors in maximising asset quality and minimising NPAs.

It is vital to keep in mind that the financial industry is dynamic, and that the position regarding non-performing assets might change over the course of time. As a result, continuous monitoring and preventative actions are required in order to guarantee the financial viability of India's private sector and public sector banks.

References

- Rao, M., & Patel, A. (2015). A study on non performing assets management with reference to public sector banks, private sector banks and foreign banks in india. *Journal of management and Science*, 5(1), 30-43.
- Kandpal, V. (2020). Non-performing assets in India: A critical analysis of public and private sector banks. *Corporate Governance and Sustainability Review*, 4(1), 65-73. <http://doi.org/10.22495/cgsrv4i1p6>
- RBI definition of NPAs from 2007 circular
- Agarwal, M. K., & Preeti, M. (2022). Non-performing assets in Indian banking sector: An analytical and comparative study of selected public and private sector banks. *Journal Global Values*, 8(1), 91–104.
- Agarwala, V., & Agarwala, N. (2019). A critical review of non-performing assets in the Indian banking industry. *Rajagiri Management Journal*, 13(2), 12–23.
- Arora, L., & Mail, B. K. S. (2018). Influence of review quality, review quantity and review credibility on purchase intention in context of high involvement products. *European Journal of Applied Business and Management*, 4(4).
- Choubisa, L., & Babel, H. (2018). Morphometric study of pedicles of dried adult human lumbar vertebrae in Udaipur zone. *Int J Anat Res*, 6(3.3), 5660-66.
- Paliouras, K., & Siakas, K. V. (2017). Social customer relationship management. *International Journal of Entrepreneurial Knowledge*, 5(1).
- Irshad, M., Ahmad, M. S., & Malik, O. F. (2020). Understanding consumers' trust in social media marketing environment. *International Journal of Retail & Distribution Management*, 48(11), 1195-1212.
- Arora, L., & Dhingra, R. (2006). Unusual nerve supply of biceps from ulnar nerve and median nerve and a third head of biceps. *Indian Journal of Plastic Surgery*, 39(02), 172-174.
- Singh, P., Arora, L., & Choudhry, A. (2022). Consumer Behavior in the Service Industry: An Integrative Literature Review and Research Agenda. *Sustainability*, 15(1), 250.



- Maharshi, N., Arora, L., & Chaturvedi, R. (2013). Management Education in India: From Challenges to Opportunities. *Asia Pacific Journal of Management & Entrepreneurship Research*, 2(1), 72.
- Dadhich, M., Rao, S. S., Sharma, R., & Meena, R. (2021). Analytical Study of Stochastic Trends of Non-Performing Assets of Public and Private Commercial Banks in India. *2021 3rd International Conference on Advances in Computing, Communication Control and Networking (ICAC3N)*, 71–76.
- Mehbodniya, A., Neware, R., Vyas, S., Kumar, M. R., Ngulube, P., & Ray, S. (2021). Blockchain and IPFS integrated framework in bilevel fog-cloud network for security and privacy of IoMT devices. *Computational and Mathematical Methods in Medicine*, 2021.
- Ray, S. (2020). How COVID-19 changed dimensions of human suffering and poverty alleviation: economic analysis of humanitarian logistics, (4), 98-104.
- Akbar, A., Akbar, M., Nazir, M., Poulouva, P., & Ray, S. (2021). Does working capital management influence operating and market risk of firms?. *Risks*, 9(11), 201.
- Dutta, A., Voumik, L. C., Ramamoorthy, A., Ray, S., & Raihan, A. (2023). Predicting Cryptocurrency Fraud Using ChaosNet: The Ethereum Manifestation. *Journal of Risk and Financial Management*, 16(4), 216.
- Polcyn, J., Voumik, L. C., Ridwan, M., Ray, S., & Vovk, V. (2023). Evaluating the influences of health expenditure, energy consumption, and environmental pollution on life expectancy in Asia. *International Journal of Environmental Research and Public Health*, 20(5), 4000.
- Sajja, G. S., Jha, S. S., Mhamdi, H., Naved, M., Ray, S., & Phasinam, K. (2021, September). An investigation on crop yield prediction using machine learning. In *2021 Third International Conference on Inventive Research in Computing Applications (ICIRCA)* (pp. 916-921). IEEE.
- Bansal, S. K., Bala, R., & Bansal, D. (2019). Big data analytics: implications and prospects for accounting professionals. *The Management Accountant Journal*, 54(5), 47-51.
- Ali, N. G., Abed, S. D., Shaban, F. A. J., Tongkachok, K., Ray, S., & Jaleel, R. A. (2021). Hybrid of K-Means and partitioning around medoids for predicting COVID-19 cases: Iraq case study. *Periodicals of Engineering and Natural Sciences*, 9(4), 569-579.
- Gupta, S., Geetha, A., Sankaran, K. S., Zamani, A. S., Ritonga, M., Raj, R., ... & Mohammed, H. S. (2022). Machine learning-and feature selection-enabled framework for accurate crop yield prediction. *Journal of Food Quality*, 2022, 1-7.
- Gupta, B. (2012). A comparative study of non-performing assets of SBI & associates & other public sector banks. *SIT Journal of Management*, 2(3), 175–189.
- Hussain, M., Maheshwari, D., & Hamid, M. (2021). A study of the impact of non-performing assets of Indian Banking System on selected public sector banks. *International Research Journal Of Modernization In Engineering Technology and Science*, 3(3), 7–13.
- Ibrahim, M. S., & Thangavelu, R. (2014). A study on the composition of non-performing assets (NPAs) of scheduled commercial banks in India. *Journal of Finance and Bank Management*, 2(1), 31–48.
- Sharma, A., Sharma, D., & Bansal, R. (2023). Emerging Role of Blockchain in Banking Operations: An Overview. *Contemporary Studies of Risks in Emerging Technology, Part A*, 1-12.
- 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), 118–124.



- Kaur, H., & Saddy, N. K. (2011). A Comparative study of non-performing assets of public and private sector banks. *International Journal of Research in Commerce & Management*, 2(9).
- Kumar, A., Jha, S., & Grover, S. (2021). Impact of Non-Performing Assets on Profitability: A Study of Selected Private and Public Sector Banks in India. *The Empirical Economics Letters*, 19, 129–138.
- Rana, A., Bansal, R., & Gupta, M. (2022). Big Data: A Disruptive Innovation in the Insurance Sector. In *Big Data Analytics in the Insurance Market* (pp. 165-183). Emerald Publishing Limited.
- Malyadri, P., & Sirisha, S. (2011). A Comparative Study of Non Performing Assets in Indian Banking Industry. *International Journal of Economic Practices and Theories*, 1(2), 77–87.
- 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.
- Rao, M., & Patel, A. (2015). A study on non performing assets management with reference to public sector banks, private sector banks and foreign banks in india. *Journal of Management and Science*, 5(1), 30–43.
- Kaur, B., & Bansal, R. (2022). A Study to Examine the Behavioral Intentions of Practitioners to Use Forensic Accounting Technique as Fraud Detection and Prevention Mechanism in India. *ECS Transactions*, 107(1), 3355.
- Saluja, R., & Lal, R. (2010). Comparative Analysis on Non-Performing Assets (NPAs) of Public Sector, Private Sector and Foreign Banks in India. *International Journal of Research in Commerce & Management (IJRCM)*, 1.
- Singh, A. (2013). Performance of non-performing assets (NPAs) in Indian Commercial Banks. *International Journal of Marketing, Financial Services & Management Research*, 2(9), 86–94.
- Singh, V. R. (2016). A Study of Non-Performing Assets of Commercial Banks and it's recovery in India. *Annual Research Journal of SCMS, Pune*, 4(1), 110–125.
- VERMA, R., Sharma, D., Sharma, S., & Sam, S. (2022). Relationship between Bank-Specific Factors and Non-Performing Assets of Indian Banks during post Global Financial Crisis Era. *Finance India*, 36(2).
- Vibhute, N. S., Jewargi, D. C. B., & Haralayya, D. B. (2021). Study on Non-Performing Assets of Public Sector Banks. *Iconic Research And Engineering Journals*, 4, 52–61.

