GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
Globally peer-reviewed and open access journal.

NON-PERFORMING ASSET IN SELECTED PUBLIC AND PRIVATE BANKS IN INDIA

Nikunj Mandaliya, Dr. P. R. Patel

Research Scholar,
S.D. School of Commerce, Gujarat University
nd.mandaliya08@gmail.com
8306661773

Research Supervisor,
Principal, Govt. Arts College,
Talaja, Dist.-Bhavnagar

Abstract

In the present situation, the sector of Banking becomes one of the quickest developing sectors. However, the present banking system is getting increasingly complex day by day (Kadam & Sapkal, 2019). Banking is all around considered the significant parts of each nation's economy wealth. Any arrangement identifying with the banking area will contrary influence the economy. NPAs straightforwardly impacts on the liquidity, profitability and the overall nature of assets and endurance of banks (Sengani, & Banudevi, 2020).So, the purpose of conducting the research is to examine the impact of Non-performing assets on the banking system.

This paper analysis or compares the performance of one of the leading public sector bank and private sector bank i.e. Kotak Mahindra Bank (a private bank) and State Bank of India (Public Bank) with regard to NPA.To conduct this research CAMEL Rating method will be used and information is gathered from yearly reports of the banks of continuous 6 years from 2013-14 to 2018-19. Though there are many tools to analyse the banks' performance, the CAMEL Rating tool has been one of the widely used tool to judge the adequacy of capital, capacity of management, asset quality, profit ability, and banks' liquidity (Kadam & Sapkal, 2019). According to the parameters of the CAMEL model, the determined ratios for all the banks shows that both Government and Private Banks doing admirably in keeping up the adequacy of Capital, however, Government Banks are confronting serious issues in the management of Asset because of more NPAs. As a result of which it may be observed that the Profit and motives of earning is higher in the private bank as compared to public sector bank. The parameter of Liquidity is less in public bank and high in private banks.

***Key Words:** Non Performing Asset , Camel model , Capital Adequacy Ratio , Asset Quality, Liquid Asset , Debt Equity Ratio , Total Assets Ratio.*

INTRODUCTION

In India, NPA is one of the significant worries for banks.NPA is the best pointer for the soundness of the banking business. NPAs mirror the bank's performance and are the essential pointers of credit hazard. NPAs are an inescapable weight on the banking system. Consequently, the achievement of a bank relies on techniques for overseeing NPAs. The Public Banks have indicated awesome execution and great outcome over the private banks with regard to financial-related activities are concerned. However, these days the only main issue of the Public Sector Banks is the expanding level of the non-performing asset. The NPA of the Public Sector Banks has been expanding on a yearly basis. However, the NPA of private sector banks has been diminishing consistently for many years(Singh, 2013).

For the most part decrease in NPAs shows that banks have reinforced their credit evaluation processes and expanded in NPAs shows the need for arrangements, which are cutting down the overall profitability of banks. For many years the Indian banking system is dealing with an issue of NPA. The size of NPA is relatively higher in public banks than private banks. To improve the effectiveness and benefit of banks the NPA should be diminished and controlled (Singh, 2013).According to Kamini Rai (2012) the principal reasons for expanding NPAs are the approach of target-oriented, which falls apart the qualitative part of lending by banks and wilful defaults, insufficient supervision of credit accounts, absence of specialized and administrative expertise with respect to borrowers.

CONCEPT OF NPA

The concept of Non-Performing assets is restricted to investments, advances and Loans. Till the assets produce the profit or income and no risk is associated with it except commercial risk it known as performing assets, but

when it fails to create the normal profit or income it turns into a "Non-Performing Asset". As such, a loan asset turns into an NPA when it stops to create profit, for example, interest, charges, commission or some other levy for the bank for over 90 days. An NPA is an advance where interest payment or reimbursement of principal or both stays unpaid for a time of 2 quarters or more and in the event that they have become „past due". A sum under any of the credit facilities is to be treated as past due when it stays unpaid for 30 days past the due date (Singh, 2013).
It is additionally called as Non Performing Loans. It is made by a bank on which reimbursements or interest instalments are not being made on schedule. A loan is an advantage for a bank as the premium instalments and the reimbursement of the principal make a flood of incomes(Selvarajan and Vadivalagan, 2013); otherwise it becomes a liability for the bank.
These days, the performance of banks has gotten a favoured subject for some bank partners or stakeholders, for example, clients, investors, and the general public. There is a wide extent of pointers of financial related reports to assess the financial related performance. Be that, the significant standard to decide the compatibility, health, and strength of a financial institution that acts as an intermediary to decide the profitability and liquidity of the institution. Among the different criteria, in 1988 the Basel Committee on Banking Supervision proposed the CAMEL elements to analyze the financial institutions (Kadam & Sapkal, 2019).

METHODOLOGY

The banks which are selected for the research are:

1. **State Bank of India (SBI)- Public sector bank**
2. **Kotak Bank- Private Sector Bank**

The CAMEL rating framework depends on an assessment of 5 basic components of a credit association's activity i.e. Adequacy of Capital, Quality of Asset, Earnings, Management and Liquidity. This rating framework is determined to consider and replicate all significant financial and operational variables analysts evaluate in their estimation of a credit association's performance and suitability of the financial and banking working situation(Kadam & Sapkal, 2019).

DATA ANALYSIS AND INTERPRETATION

A. **Capital Adequacy**

Under capital adequacy three ratios were calculated:

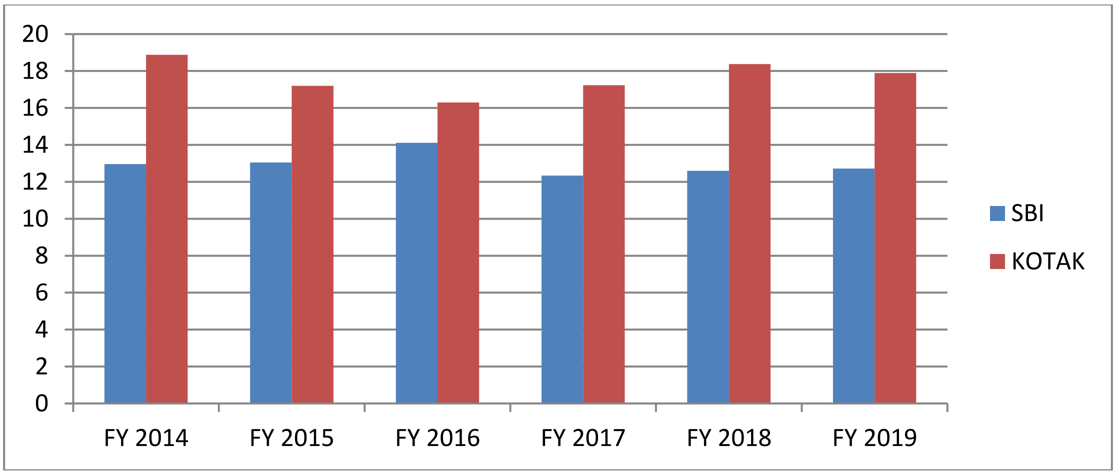
a) Capital Adequacy Ratio (CAR)
b) Debt Equity Ratio
c) Total asset or Total Advance Ratio

Capital Adequacy Ratio (CAR)

CAR=Capital/Risk

Here, the risk may be weighted assets or minimum total capital requirement of the national regulators.

Banks	**Years**					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	12.96	13.05	14.11	12.34	12.6	12.72
Kotak bank	18.88	17.2	16.3	16.8	18.38	17.89



GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
Globally peer-reviewed and open access journal.

Interpretation :

CAR is the proportion of capital funds to weighted assets' risk. RBI directs the bank to keep up a CAR of 9 percent about the risk of credit, the market and operational risk on an ongoing basis as against 8 percent recommended in BASEL. From the above table and graph, it is clear that Kotak bank has the ideal Capital Adequacy ratio. Higher the ratio, the higher is the risk-taking bank capacity(Kadam & Sapkal, 2019). It also shows that as compare to Kotak bank the risk-taking capacity of the SBI is low due to increasing NPA.

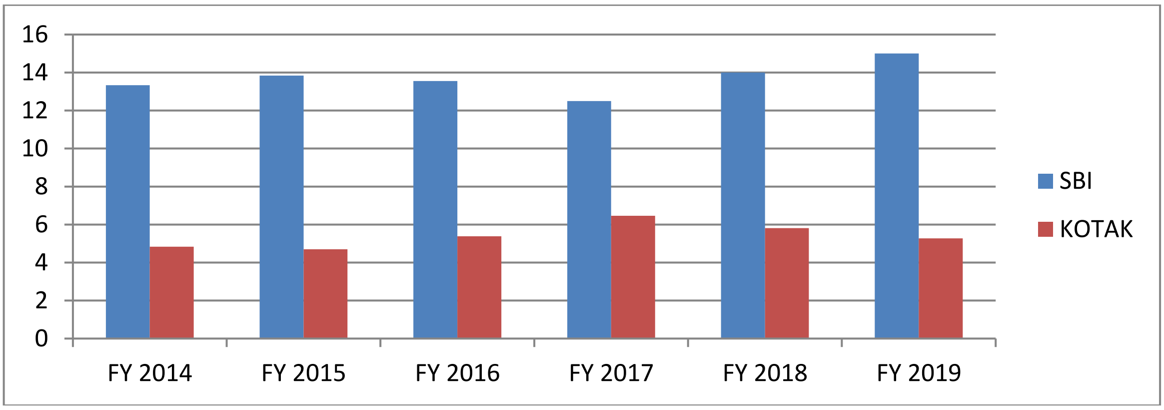
- ***Debt Equity Ratio***

Debt= borrowings+ Deposits + unsecured debts

Equity = Reserves & surplus +Capital

Ratio = Debt/ equity

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	13.33	13.84	13.55	12.5	14	15
Kotak Bank	4.83	4.7	5.38	6.46	5.81	5.27



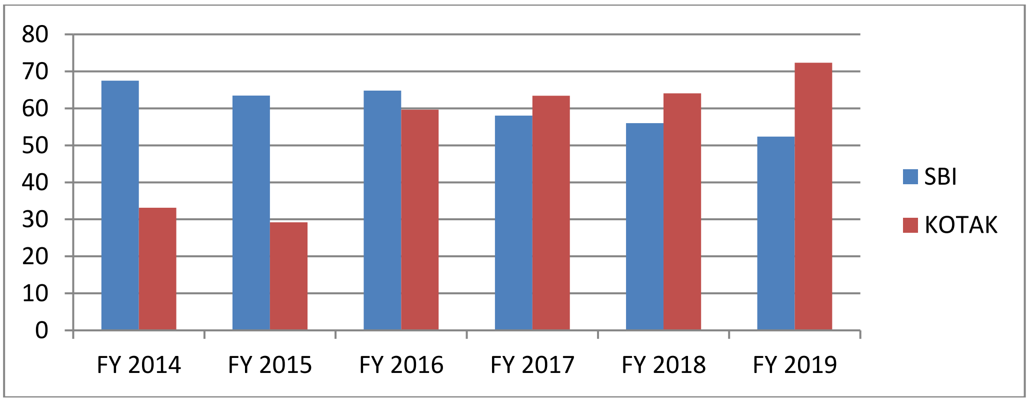
Interpretation: The Debt to Equity Ratio quantifies how much money a bank ought to securely able to acquire over period of time. Any bank that has a debt-equity ratio of over 40 percent to 50 percent ought to be taken care of to ensure there are no liquidity issues. The higher ratio shows less security for the creditors and investors in the financial framework. Kotak Mahindra bank had less debt-equity ratio because the bank due to less NPA is able to raise equity capital more than debt as compared to public sector banks like SBI.

- ***Total Asset or total advance Ratio***

Total asset Ratio: Total Advances/ Total Assets

Total Advances/ Total Assets Ratio

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	67.5	63.47	64.79	58.05	56	52.37
Kotak Bank	33.14	29.18	59.65	63.41	64.06	72.35



Interpretation : This ratio shows a bank's fierceness in loaning which eventually brings about more profitability. For any bank, a higher ratio of advance/deposits (assets) is needed as compared to a lower one.

https://www.gapinterdisciplinarities.org/

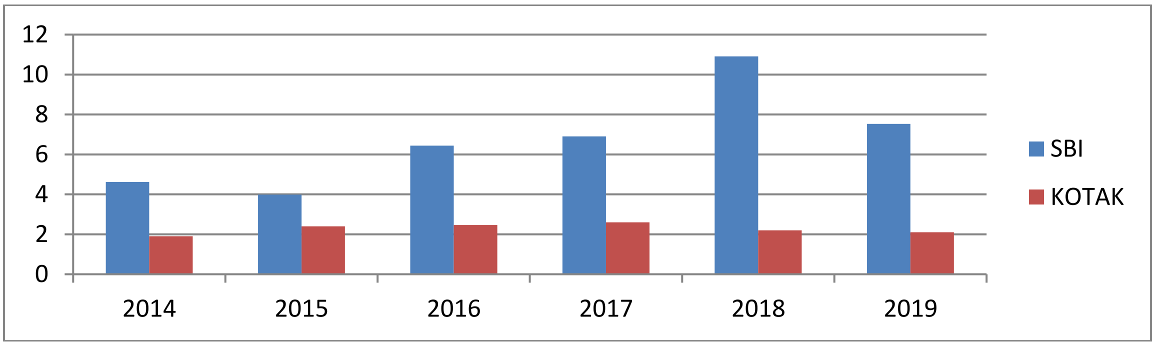
Here in the private bank, this ratio has constantly expanded due to increment in advances more than the expansion in the assets, which appears development in investments. SBI (Government Bank) also shows the same pattern however it can't continue with expanding patterns.

B. **Asset Quality**

- ***Gross NPA***

Gross NPA ratio: Gross NPA/Net Advances

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	4.62	3.99	6.44	6.9	10.91	7.53
Kotak Bank	1.9	2.4	2.46	2.6	2.2	2.1



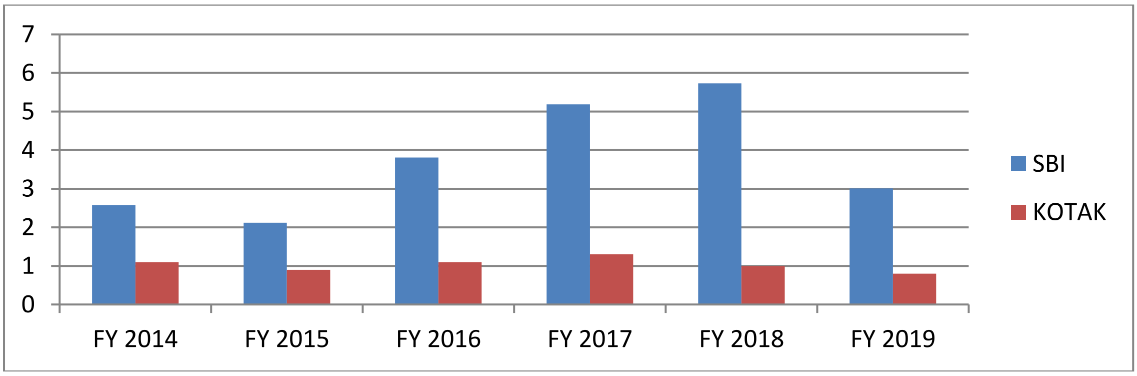
Interpretation :

This ratio is utilized to check whether the gross NPAs of the bank is expanding year on year or not. If it shows that the bank is adding to the stock of bad loans than it would mean the bank is either not practicing enough steps when offering loans or on the other hand, is excessively careless regarding catching up with borrowers on timely reimbursements. The above table shows that the NPAs of SBI are expanding year on year, which is a risk to the bank.

- ***Net NPA***

Ratio: Net NPA/Net Advances

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	2.57	2.12	3.81	5.19	5.73	3.01
Kotak Bank	1.1	0.9	1.1	1.3	1.0	0.8



Interpretation:

Net NPAs mirror the bank's performance. An increasing level of NPAs recommends high profitability of an enormous number of credit defaults that influence the net worth and profitability of banks and wear out the estimation of the asset. Advances and loans ordinarily depict the biggest asset of the majority of the banks. It screens the bank loan portfolio quality. The higher the ratio is the higher the risk of credit. The ratio for Kotak bank is very low and its performance is better as compared to SBI.

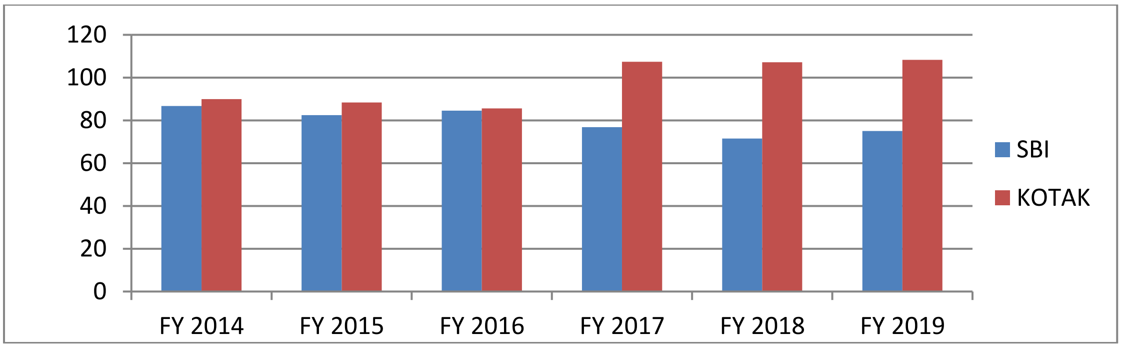
C. Management

- ***Total advance to Total deposit Ratio***

Ratio= Advances/Deposits

Banks	Years

	2014	2015	2016	2017	2018	2019
SBI	86.76	82.44	84.57	76.83	71.49	75.08
Kotak Bank	89.92	88.37	85.59	107.44	107.19	108.29



Interpretation:

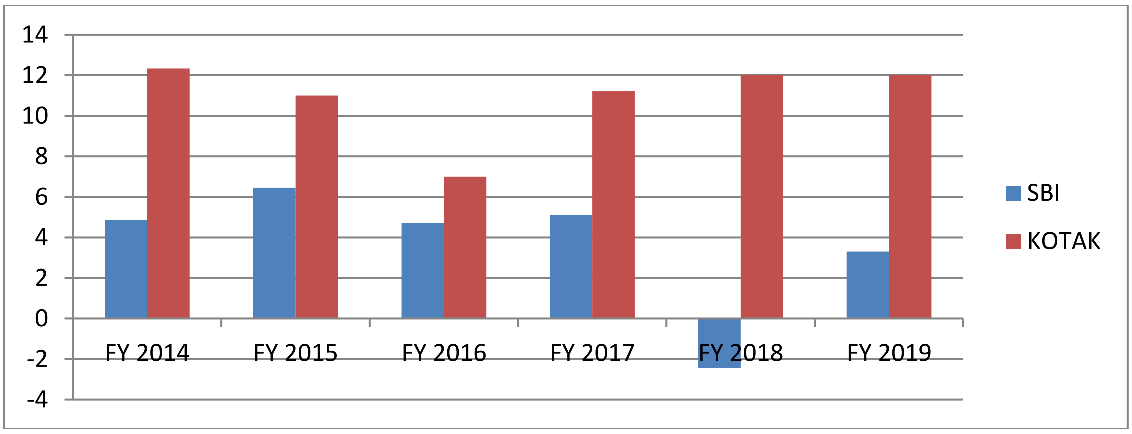
This ratio shows the bank investment through approving the credits against accepting the advance. In Kota Mahindra Bank the ratio is continuously expanding year-on-year. This gives a good indication of the bank. Kotak Bank is doing well when compared with SBI. The government bank due to the burden of NPAs is inefficient to manage its investment.

- ***Profit per employee***

  Profit = Net profit

  Ratio= Profit/ Number of Employees

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	4.85	6.45	4.72	5.11	-2.43	3.3
Kotak Bank	12.33	11	7	11.23	12	12



Interpretation:

This ratio shows the same as above that how efficiently bank is utilizing its employees. The higher ratio shows that the bank is performing very well. From the above table it may observe that as compared to SBI the Kotak Bank is performing very well. The profit per employee in case of SBI is in minus i.e there is no profit and only loss in 2018.

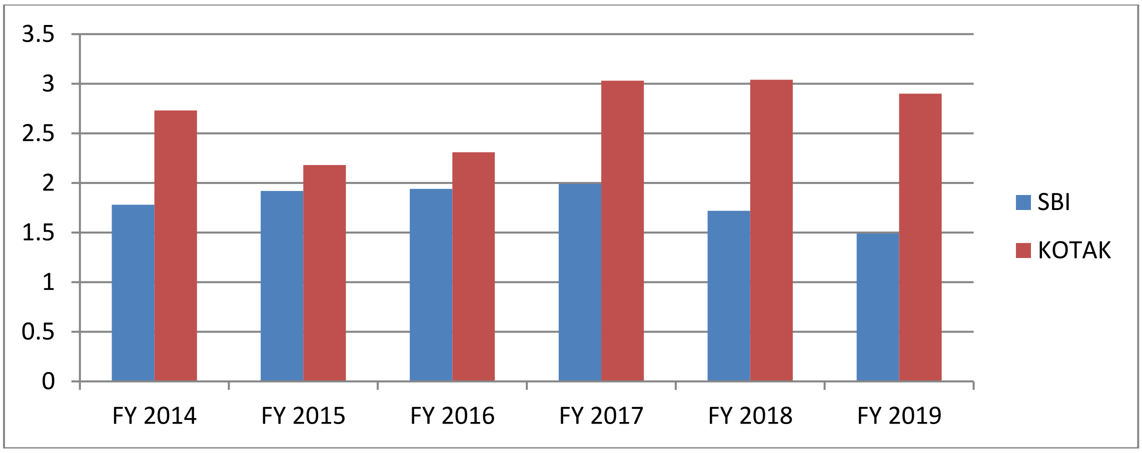
D. Earnings

- ***Operating profit To Average Working Capital***

  Ratio= Operating profit/Average Working Capital

Banks	Years					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	1.78	1.92	1.94	1.99	1.72	1.49
Kotak Bank	2.73	2.18	2.31	3.03	3.04	2.90

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
Globally peer-reviewed and open access journal.

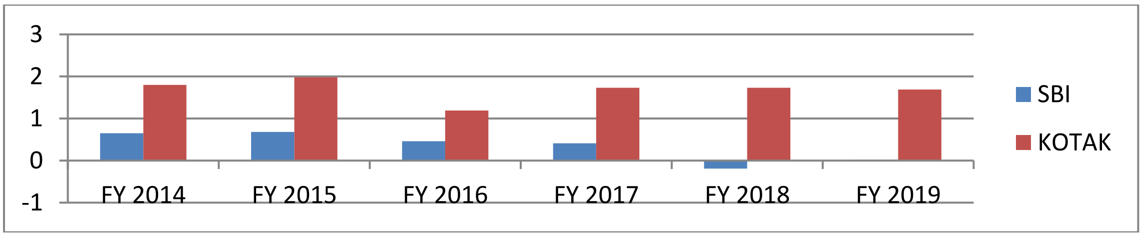


Interpretation: This ratio shows the bank's financial health and development capacity. The higher ratio depicts higher capacity of bank to grow. As we may see the growth capacity of the government bank is very low as compared to private bank.

- ***Return on Assets (ROA)***

  ROA Ratio=Net income / Average Total Assets

Banks	**Years**					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	0.65	0.68	0.46	0.41	-0.19	0.02
Kotak Bank	1.80	1.98	1.19	1.73	1.73	1.69



Interpretation: ROA ratio depicts amount of return from total assets which a bank may get. In case when the ratio is high it is very beneficial for the bank. From higher ratio we may say that the bank return is high or increasing. In case of SBI it may observe from the above graph and table that the return in 2019 is very low and also in 2018 there is not return. In compare to this the return for Kotak bank in all years is high.

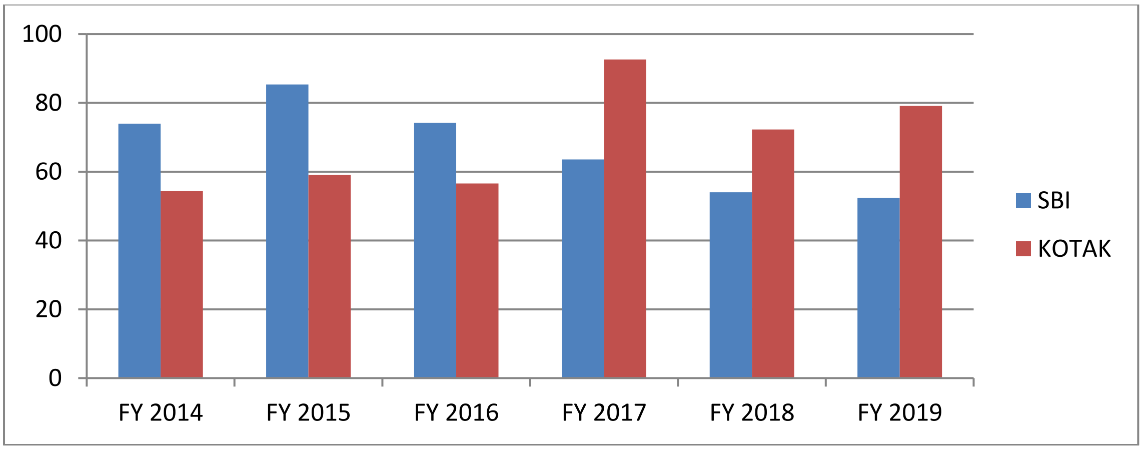
E. Liquidity

- ***Liquid Asset/total Asset***

  Liquid Asset= Cash with RBI+ Cash for short notice

  Ratio= Liquid Asset to Total Asset

Banks	**Years**					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	73.95	85.37	74.16	63.55	54	52.37
Kotak Bank	54.34	59.07	56.58	92.64	72.25	79.11



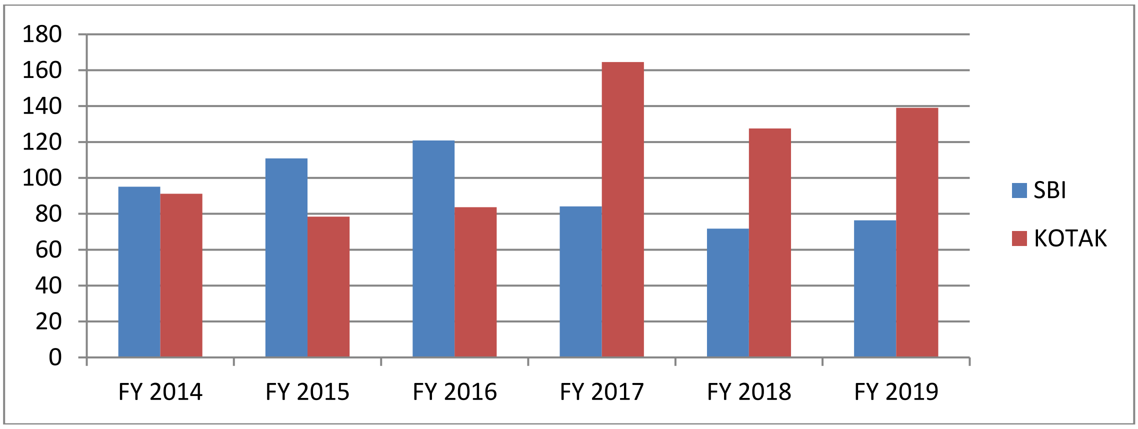
GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor: SJIF - 5.047, IIFS - 4.875
Globally peer-reviewed and open access journal.

Interpretation: Liquidity for a bank implies the capacity to meet its monetary obligations. Bank loaning funds investments in moderately sick liquid assets, however, it finances its loans with its short term liabilities. Therefore one of the fundamental difficulties to a bank is guaranteeing its own liquidity under all sensible conditions. Private Banks have the highest liquid assets. It can without much of a stretch develop money quickly by liquidating its assets. In contrast to this, the Government banks due to NPAs face problems in liquidating their assets.

- ***Liquid Assets/ Total Deposits***

  Ratio= Liquid Asset to Total Deposit

Banks	**Years**					
	2014	***2015***	***2016***	***2017***	***2018***	***2019***
SBI	95.06	110.9	120.86	84.1	71.74	76.42
Kotak Bank	91.19	78.47	83.65	164.51	127.59	139.06



Interpretation: The ratio shows how much a bank may convert its deposits into liquidity assets into money at the time of requirement. From the above table, it may observe that Private Banks have more capacity to change their assets in liquid form as compared to government banks.

RESULTS

The report puts forth an attempt to examine and analyze the performance of the private bank i.e Kotak Mahindra Bank and Government Bank i.e. State Bank of India. To conduct the analysis the CAMEL Model is used. The result has brought many interesting outcomes, some of which are discussed as underneath:

1. For the capital adequacy, banks have capital above the necessary degree of capital required. But as compared to SBI the depositors have more confidence in Kotak Bank. Also, compare to Kotak bank the risk-taking capacity of the SBI is low due to increasing NPA.
2. The quality of assets can be measure as the quantity of non-performing loans to the total credits authorized by the bank. The bank with least non-performing loans from the above 2 banks is Kotak Bank. This demonstrates that Kotak bank adopts and implements successful approaches for every one of its sanctioned loans. The bank has a strong quality of the asset and negligible portfolio risk. The most noteworthy non-performing assets are with the State Bank of India. There may need to screen the portfolios of the clients more efficiently before sanctioning the loan.
3. The quality of management is the most significant factor. The performance of all other 5 CAMELS elements relies upon it. The management and board group of Kotak Mahindra Bank according to the ratio are completely effective. In contrast to this Public sector banks basically lacking management and administration. Replacing or reinforcing might be required to accomplish sound and safe activities.
4. The quality and pattern of bank earning rely to a great extent upon how well the management deals with its assets and liabilities. With regards to this, a number 1 rating is given to Private Banks, which reflects strong earnings that are adequate to keep up satisfactory capital and loan remittance, and backing activities. In contrast to this number 2 rating is given to public bank which encounters continuous losses and represents a particular risk to the bank's solvent through the capital erosion.
5. With regards to liquidity, State Bank of India shows a low level of liquidity as compared to Kotak bank and the bank requires quick external help to address liquidity issues.

CONCLUSION

Therefore, from the above research we may conclude that due to expanding burden of NPAs on the public sector bank the efficiency of bank is highly affected in a bad manner. As compared to private sector banks the

https://www.gapinterdisciplinarities.org/

extent of NPAs in public sector banks is higher. So there is s need to improve the efficiency and profitability of government banks. The extent of NPAs has comparatively higher in public sectors banks. To improve the profitability and efficiency of government banks the NPAs have to be rescheduled and various steps has to be taken by the government to reduce the level of NPAs. Although it is impossible that there will be no NPAs but the Indian banks should try to ensure that the loans must be given to the creditworthy clients and not to everyone.

REFERENCES

[1] Kadam, M. M., & Sapkal, D. (2019). A Comparative Analysis of Performance of Public & Private Sector Banks in India Through Camel Rating System. International Educational Applied Research Journal (IEARJ) Volume, 3.

[2] Rai, Kamini. (2012). Study on performance of NPAs of Indian commercial banks. Asian Journal of Research in Banking and finance, 2(12), 16-26.

[3] Selvarajan, B., & Vadivalagan, G. (2013). A study on management of non performing assets in priority sector reference to Indian bank and public sector banks (PSBs). Global Journal of Management and business research.

[4] Sengani, V., & Banudevi, P. (2020). Impact Of Non-Performing Assets On Return Of Banks In India-With Special Reference To Scheduled Commercial Banks. Our Heritage, 68(54), 1190-1195.

[5] 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.