A COMPARATIVE ANALYSIS ON NON-PERFORMING ASSETS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

Banks are the significant players in the Indian financial market. They are the biggest purveyors of credit and they also attract most of the savings from the people. The economic progress of a nation and development of banking is invariably interrelated. The Banking sector is an indispensable financial service sector supporting development plans through channelizing funds for productive purpose, intermediating flow of funds from surplus to deficit units and supporting financial and economic policies of government. The importance of bank’s stability in a developing economy is noteworthy as any distress affects the development plans thereby the economic progress. The Indian Banking sector accounts for a major portion of financial intermediation and acknowledged as main vehicle for monetary policy signals, credit channel and facilitator for payment systems.

Banking sector plays a pivotal role in the development of economy. The nationalization of the major banks in July 1969 is an important Land mark and turning point in the history of Indian commercial banking. There has been a momentous change in the perception and practices of commercial banks, particularly public sector banks. The nationalization period saw the penetration of branches of public sector banks in hitherto unbanked areas/remote corners of the country. It also saw the emergence of priority sector lending consisting of agriculture, small industry, exports, and road operations etc. which were hitherto treated as untouchables. There was a marked shift to social banking as public sector banks participated in the poverty alleviation programmes.

There are costs along with benefits. There had been a steep decline in productivity, efficiency and profitability of banks during post-reform period. Due to directed investment and credit programmes and also due to factors operating on both income and cost side, the health of banks deteriorated. The bad, doubtful and loss advances known as Non-performing assets, accumulated in whooping figures. The Government of India appointed high level Committee under the chairmanship of Sri M.

The present study is designed to be a narrative study with appropriate analytical discussions present in tune with the propose objectives. For the present purpose, two banks from public sector and two from the private sector have been selected purely considering the bank’s profitability based on the recent performance figures of the banks. In each sector, one bank from the high performing group and the other from the low performing group has been picked up on random basis. Accordingly, **Bank of Baroda** and **Canara Bank** from the public sector While **HDFC Bank** and **Karur Vysya Bank** from the private sector have been selected and performance figures of these four banks have been used for the comparative analysis.

The data has been used in the present analysis is confined to the past one decade (12 years to be exact) from 2001-2002 to 2012-2013. With regard to the study, comparable financial performance of the selected public and private sector banks and data pertaining to the 12 year reference period (2001-2002 to 2012-2013) for analyzing the NPA’s has been considered.

During the course of study three hypotheses have been tested. The obtain data have been analyzed using appropriate statistical measures/techniques like percentages, averages and financial ratios. While analyzing the incidence and trends of NPA’s, usual statistical techniques like percentages and ratios have been used ‘t – test’ and ‘F – test’ have been used to determine the significance of difference in averages between public sector and private sector banks and among the four banks study in the present study. For Impact of the Gross NPAs (GNPA) and Net NPAs (NNPA) the Correlation Coefficient Values (r) has also been used. The analysis is done with the help of SPSS Program.

Researcher has utilized almost totally the secondary data. For the study, secondary data have been collected using annual report of “**Reserve Bank of India**” publication including “**Trend & Progress of banking in India**”, statistical tables related to banks in India and for that annual reports of the year 2001-2013 and related websites.

The study has been broadly divided into two parts. The first part of the study deals with the theoretical discussions on public sector commercial banks concerning their origin,
growth and development in India, problems, challenges of public sector banks in the post-reforms era, financial sector reforms in India with special reference to banking sector and the level of NPA and their management in relation to banks. The second part contains the empirical analysis of collected data and findings, conclusions and suggestions for better management of NPAs. The present thesis has been organized in to Seven (7) Chapters.

This study appraise whether the reduction in NPA ratios really reflect efficiency of Indian banking in post-liberalization period Prudential norms are intended to cleanse the Balance Sheet of banks and restore financial health. In this context the management of NPAs assumes importance. The study therefore, concentrates on “Prudential Norms, analysis of magnitude and trends of NPAs in public and private sector banks, management practices to recover NPAs etc. The NPAs management strategy of the banks is outlined. The study is significant for several reasons. First and foremost, it explains NPA, which contributed to transformational changes in banking since liberation, i.e., 1991. Banking regulators and financial pandits focused their attention to curb the menace of NPA, but it still remains disturbing banking progress worldwide. Even though NPA ratios indicate significant improvements through effective NPA management, a clear picture of NPA trends is still difficult to visualize. This study attempts to provide an understanding on whether Indian banking could manage its NPA during post-millennium period effectively. This study therefore assumes significance in analyzing NPAs in public and private sector banks and management practices.