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NPAs in Indian Public and Private Banks During the COVID-19 Pandemic

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ABSTRACT

In this research paper, I have focused on private and public banks' NPAs. This is a comparative study of public and private sector banks, here I have analyzed the relationship between private bank NPAs and public bank's NPAs. I have analyzed significant differences between private banks' NPAs and public banks' NPAs. According to my research, the growth rate of GNPAs at banks in the public and private sectors has been rising since 2017. The government sector's gross NPA growth rate climbed from 11.7 to 14.6 percent between 216 and 2017. (2018 update on the RBI's financial soundness) The growth rate grew by 11.6% in the 2018–19 fiscal year. private banks are experiencing an increase from 2017 to 2020.

Keyword – Covid-19, Pandemic, RBI, Public Banks, Private Banks, NPAs, GNPAs

INTRODUCTION

Non-performing assets (NPA) are a problem that both public and private sector banks in India are now dealing with. Any country's financial system serves as the foundation for that country's growth and development. An economy's overall health is ensured by the banking sector's efficient operation. Any nation's financial system functions like a blood-nerve and NPAs are choking the Indian banking system's nerve and preventing the free flow of funds. NPAs are the primary metrics used to assess the performance of the banking industry. People experienced health problems during the COVID-19 era, in addition to problems with their jobs and finances. This circumstance is directly related to their prior loans, which are still outstanding. Since the majority of people have lost their jobs as a result of COVID-19, it is once again difficult for both the individual and the government to repay earlier loans. Because of this, both private and public banks in India are currently experiencing NPA issues. This issue has persisted in the Indian financial system for the past 20 years.

NPAs definition According to RBI "non-performing asset (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained „past due" for a specified period of time." The specified period was reduced in a phased manner as under an amount due under any credit facility is treated as "past due" when it has not been paid within 30 days from the due date. Due to the improvements in the payment and settlement systems, recovery climate, upgradation of technology in the banking system, etc., it was decided to dispense with „past due" concept, with effect from March 31, 2001. Accordingly, as from that date, a Non-performing Asset (NPA) shall be an advance where: -

- Interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a Term Loan,

- The account remains "out of order" for a period of more than 180 days, in respect of an Overdraft/Cash Credit (OD/CC),

- The bill remains overdue for a period of more than 180 days in the case of bills purchased and discounted,

- Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes,

- Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPAs, from the year ending March 31, 2004. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where;

- Interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

- The account remains "out of order" for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),

- ▪ The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

- ▪ Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes,

- ▪ Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

In simple word NPA means the advance or credit for which the principal and interest of loan amount repayment remained overdue for 90 days period. In the bank books basically, it is known as bad assets or loan. Non-Performing assets are those loans which are consider as default because it's principal and interest amount is remained overdue.

Why NPAs matter

 The issue of mounting Non-Performing Assets in Indian banks, and public sector banks in particular, found that NPAs of Indian banking industry as a whole are continuously increasing during the period 2008-09 to 2013-14 followed by the global crises. In case of India banking NPAs since 2018 the rate of government sector NPAs rapidly increased due to risk loan which is provided by government banks. Even in the year 2017 total government NPAs was 506921.66 which increased by 895601.26 million in 2018 which means 14.6 precent growth which a very serious problem for Indian banking system. The share of gross non-performing assets is increasing year by year. RBI regularly publishes the data on NPAs as a part of its Financial Stability Reports. in July, 2020, RBI in its latest Financial Stability Report said bank NPAs may touch 22-year high in severe stress scenario due to the impact of Covid-19 pandemic.

LITERATURE REVIEW

Rajeev & Mahesh (2010) in their study they mentioned about our weak legal system meant for banking system in India. It is one of the responsible factors for continuously increasing NPAs in banking business. The legal system in India is working sympathetically for its borrowing customers and it doesn't show interest for banks.

Prasad and Veena, D. (2011) as researchers tested various aspects related to trends of NPAs of banking sector. They pointed out that major section of Public Sector Banks are facing the difficulty of unproductive manpower and too much of inoperative assets, than other sectors of banks.

Rajeswari Sen Gupta and Harsh Vardhan September 2017 - in this research paper research has comparative analyzed two banking crisis episodes- the one in the late 1990s and one that started in the aftermath of the 2008 Global Financial Crisis and is yet to be resolved. They have described the macroeconomic and banking environment preceding the episodes, the degree and nature of the crises and also discuss the policy responses that have been undertaken.

Sharma S., Rathore D.S., and Prasad, J. (2019) They found that both in public & private sector banks the major reason for the NPAs is miss-utilization of bank loans and poor recovery management. The NPAs are increasing in agriculture and industries. They suggested improving corporate governance for better operational and credit decisions.

Kumari S. S. & Naik M.D. (2020) – in their research paper they have examine the trend of NPAs in government and private banks. They conclude that government and private bank have positive trend and foreign bank have negative trend.

Hawaldar, I.T, Spulkar, C., Lokesh, A., Birau, R., Robegen, C. (2020) in their study analysing non-performing assets in agriculture loans. A case study in India concluded that there is no significant difference in pre and post sanction of agriculture loans and management of nonperforming assets by banks. The willful default by borrowers and more NPAs in banks are due to debt waiver policies announced by political parties.

Selvam, P. and Premnath S., (2020) in their study titled "Impact of coronavirus on NPA and GDP of Indian Economy" finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which is the real problem segment.

Jethwani, B., Dave, D., Ali, T., Phansalker, S., and Ahhirao, S. (2020) in their study Indian agriculture GDP and NPA: A regression model found that the repayment of farm loan adversely affects as factors like rural population, low export value of crop and low crop production for the year. It should be understood that the farm loan waivers cannot solve the problem.

Saha, M., and Zaman, A. (2021) in their study titled Management of NPAs in banks with special reference to UBI found that with the decrease in NPA level, profitability of banks increased.

Nitesh S. & Vibhute, 2021 in their research they have critically evaluates the trend in movement of nonperforming assets of public sector banks in India during the period 2000-01 to 2011-12, thereby facilitates an evaluation of the effectiveness of NPA management in the post-millennium period.

METHODOLOGY

The study is based on secondary data, collected from the Annual Report of banks, various reports published by Reserve Bank of India (such as the annual Report on Trend and Progress of Banking in India) as well as data compiled by author which is available on the internet. The study covered before Covid-

19 period and during Covid-19 which mean the second wave of Covid-19. In this study we have used sample size = 6 banks. Out of which 3 banks are Government and 3 banks are private. Namely Government banks are SBI (State Bank of India), BOB (Bank of Baroda) and PNB (Punjab National Banks). Namely private banks are HDFC Bank, ICICI Bank and Axis Bank. The selection of banks is based on Net capital and assets of banks where highest amount banks are selected for research paper.

RESEARCH DESIGN

The research is based on exploratory and comparative research design.

Sampling: In this paper we have used non probability sampling for selecting the private and government bank unit. Together, where we have selected 3 unit of government bank and 3 unit of private bank. The sample size is (N = 6). We have selected those banks which have higher amount of Net capital and higher amount of asset in the year.

Objective:

- To Study the Non-Performing Assets of Indian selected Private and public Banks.

- To examine the comparative difference between private banks NPAs and public banks NPAs.

Hypothesis

- Private bank has higher NPAs than public banks

- There is no significant difference between private and public banks

Test and Tool

We have used t-test for measuring significance difference between private and government banks NPAs. Second tool which we have used is trend analysis for checking the NPAs trend from 2017 to 2020.

Scope of the study

Several studies have been done on Indian Banking NPAs but this is first study which is based on selected private and government banks. The study is focused on trend analysis of NPAs in different year. And measured the different between private and government sector banks NPAs.

Result and discursion

Table 1.1: Selected Public Sector Banks NPAs in Year 2017, (Data in Millions)

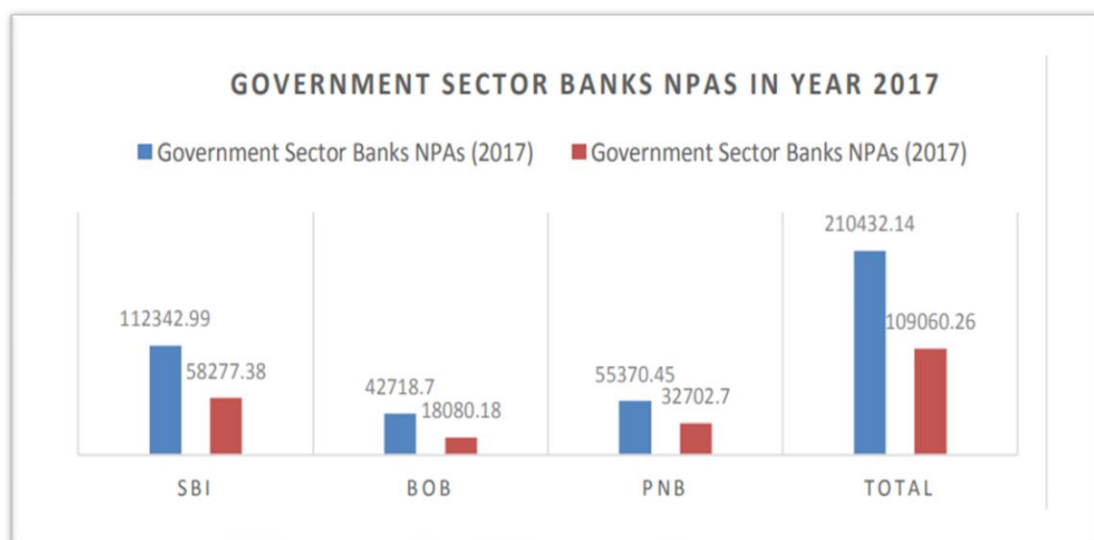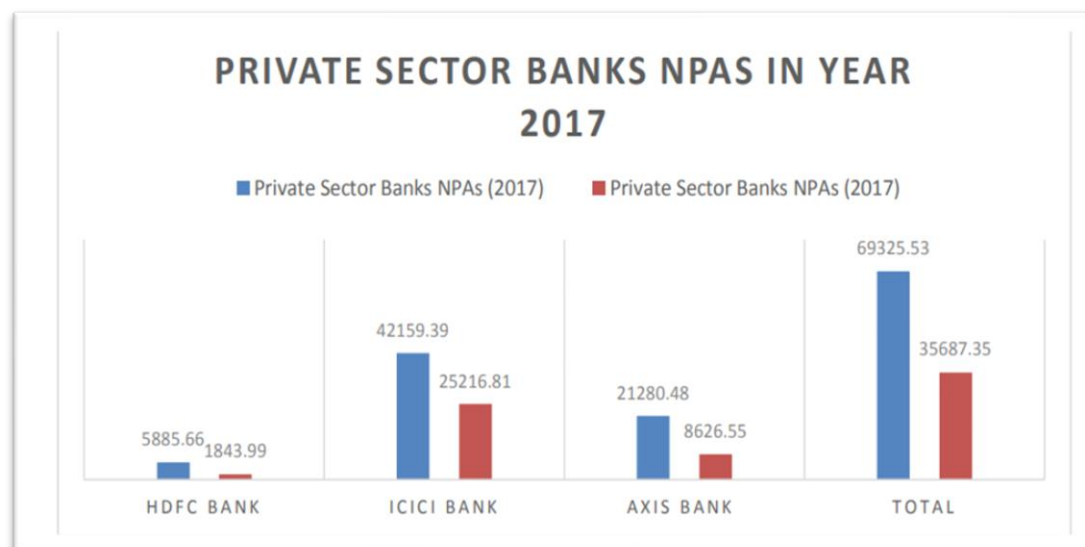| Banks	GNPAs	NNPAS
SBI	112342.99	58277.38
BOB	42718.7	18080.18
PNB	55370.45	32702.7
TOTAL	210432.14	109060.26

Figure 1.1: Public Sector Banks NPAs in Year 2017, (Data in Millions)

Table 1.2: Private Sector Banks NPAs in Year 2017, (Data in Millions)

Banks	GNPAs	NNPAS
HDFC	5885.66	1843.99
ICICI	42159.39	25216.81
AXIS	21280.48	8626.55
TOTAL	69325.53	35687.35

Figure 1.2 Private Sector Bank NPAs in Year 2017, (Data in Millions)

In table 1.1 We have compiled the data of selected public banks and in table 1.2 we have compiled the data of selected private banks in year 2017. If we look data of 2017, we clearly found that the public bank has higher NPAs in terms of total. If we look the figure 1.2 ICICI has the highest NPAs in private sector in 2017. In 2017 the Bank of Baroda has lowest NPAs which is 42718.7 million. Over all the public banks has higher NPAs then private banks in year 2017.

Table 2.1: Public Sector Banks NPAs in Year 2018, (Data in Millions)

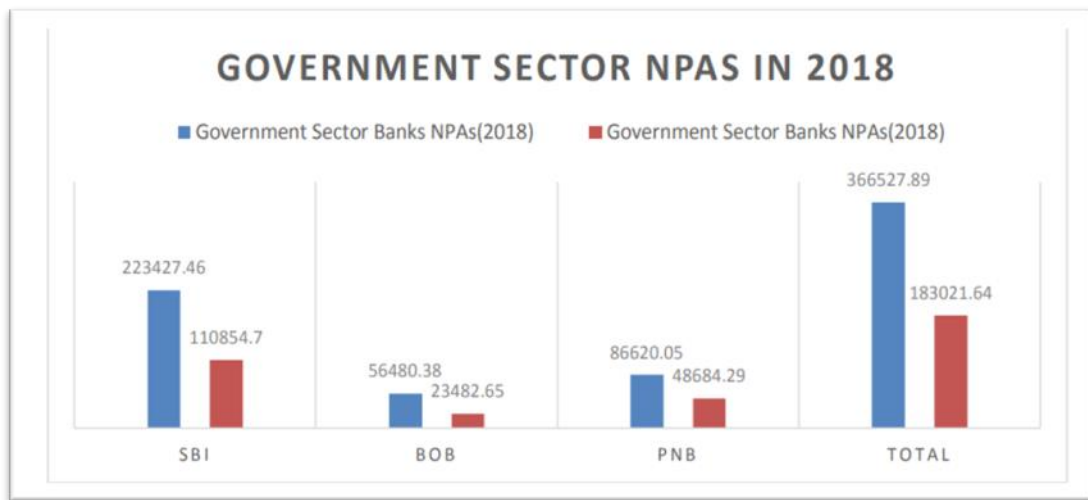| Banks	GNPAs	NNPAs
SBI	223427.46	110854.7
BOB	56480.38	23482.65
PNB	86620.05	48684.29
TOTAL	366527.89	183021.64

Figure 2.1: Public Sector Banks NPAs in Year 2018

Table 2.2: Private Sector Banks NPAs in Year 2018, (Data in Millions)

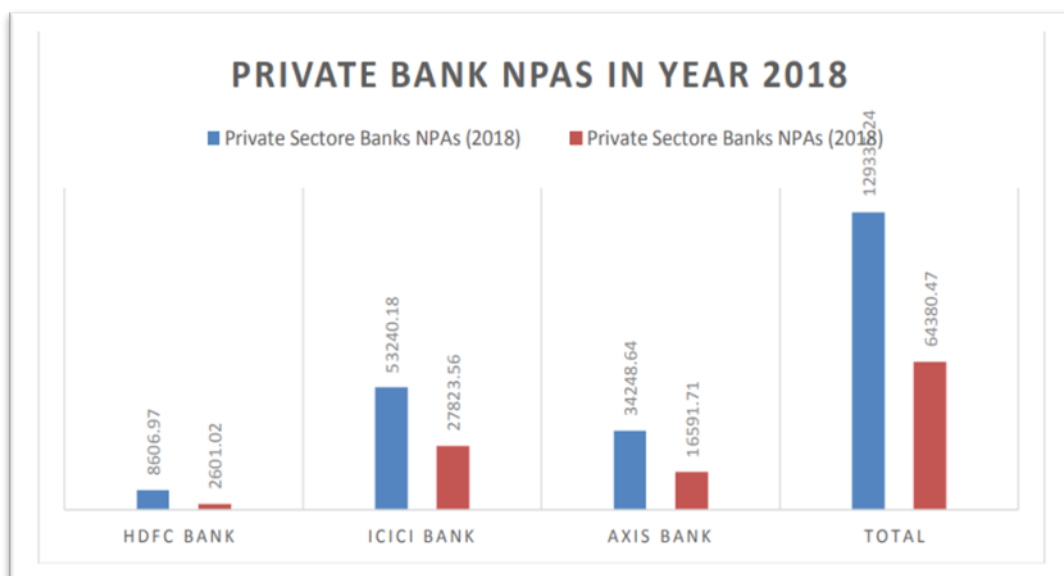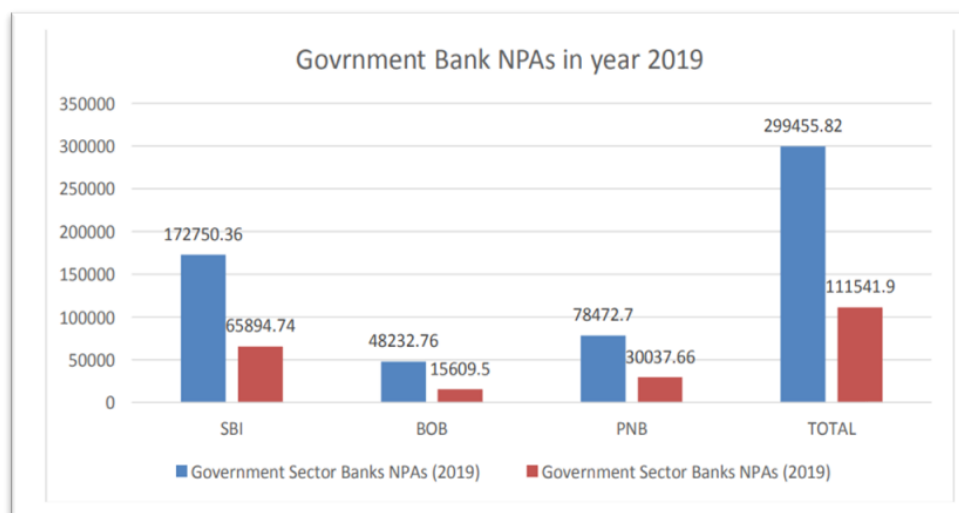| Banks	GNPAs	NNPAs
HDFC	8606.97	2601.02
ICICI	53240.18	27823.56
AXIS	34248.64	16591.71
TOTAL	129335.24	64380.47

Figure 2.2: Private Sector Bank NPAs in Year 2018, (Data in Millions)
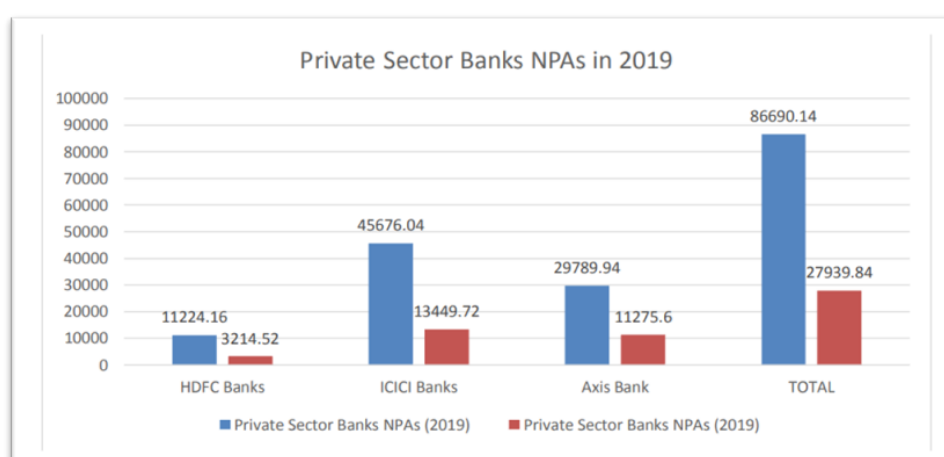
In table 2.1 we have shown the public sector banks NPAs and in Figure 2.1 we have represented the public banks NPAs in diagram. In year 2018 public sector has higher NPAs than private sector. In private sector ICICI bank has higher NPAs (53240.18 million) and HDFC bank has lowest (8606.97million) Bad loan in 2018. If we look only public banks the SBI has higher NPAs (223427.46 million) among the selected public banks. In 2018 the BOB has lowest NPAs which is 56480.38 million in public sector banks. In terms of total selected banks public banks has higher NPAs than private banks this means government has weak loan recovery policy.

Table 3.1: Public Sector Banks NPAs in Year 2019, (Data in Millions)

Banks	GNPAs	NNPAs
SBI	172750.36	65894.74
BOB	48232.76	15609.5
PNB	78472.7	30037.66
TOTAL	299455.82	111541.9

Figure 3.1: Public Sector Banks NPAs in Year 2019, (Data in Million)

Table 3.2: Private Sector Banks NPAs in Year 2019, (Data in Millions)

Banks	GNPAs	NNPAs
HDFC	11224.16	3214.52
ICICI	45676.04	13449.72
AXIS	29789.94	11275.6
TOTAL	86690.14	27939.8

Figure 3.2: Private Sector Bank NPAs in Year 2019, (Data in Millions)

In table 3.1 we have represented the public sector banks NPAs where the total NPAs is 299455.82 million in year 2019 which has decreased than previous year. But the growth rate is 11.6 which is higher rate. Again, SBI has higher NPA among all selected banks which is 172750.36 million (RBI Annual Report 2019) and BOB has lowest NPAs among selected public banks which is 48232.76 million. In term of total NPAs in year 2019 has decreased from

previous year. In case of private banks, the HDFC has lowest NPAs among the selected private banks and ICICI banks has higher NPAs of 45676.04 million.

Table 4.1: Public Sector Banks NPAs in Year 2020, (Data in millions)

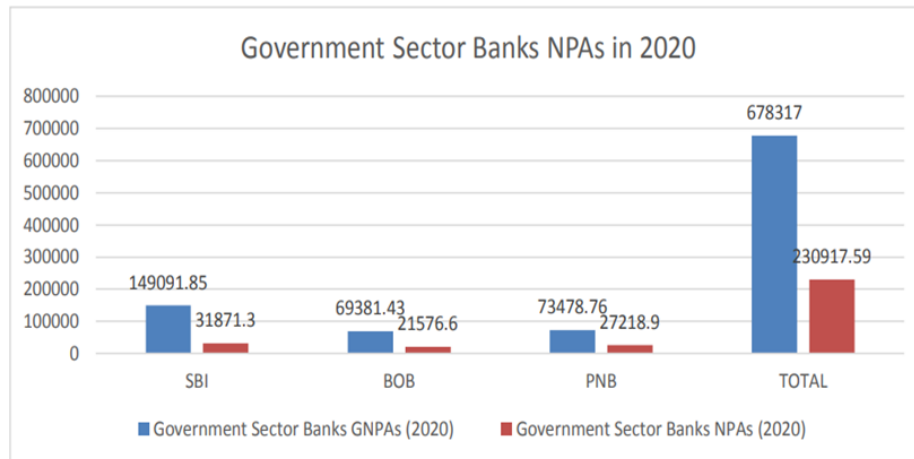| Banks	GNPAs	NNPAs
SBI	149091.85	31871.3
BOB	69381.43	21576.6
PNB	73478.76	27218.9
TOTAL	678317	230917.59

Figure 4.1: Public Sector Bank NPAs in Year 2020

Table 4.2: Private Sector Banks NPAs 2020 (Data in millions)

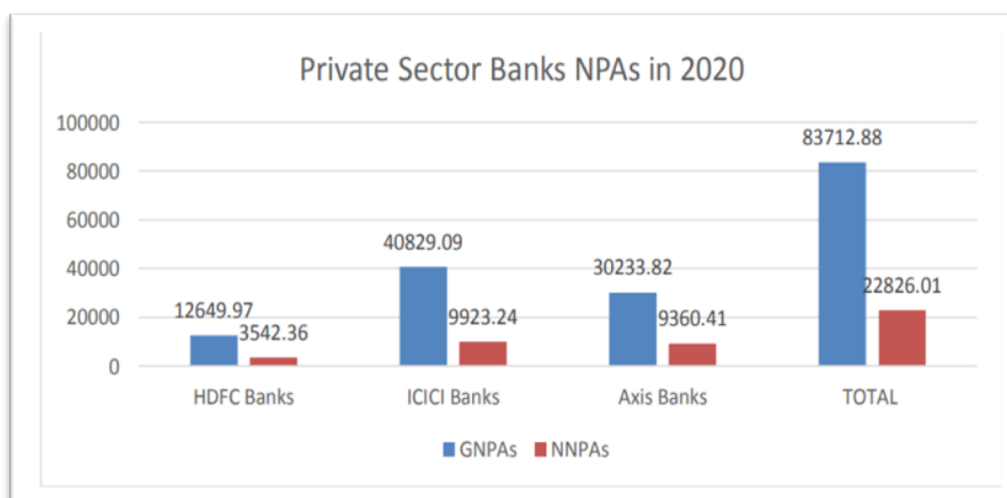| Banks	GNPAs	NNPAs
HDFC	12649.97	3542.36
ICICI	40829.09	9923.24
AXIS	30233.82	9360.41
TOTAL	83712.88	22826.01

Figure 4.2: Private Sector Bank NPAs in Year 2020

In table 4.1 we have represented the public sector bank NPAs where we found that SBI has higher NPAs which is 149091.85 million we can clearly see in figure 4.1 SBI has highest range of Gross non-preforming assets and BOB has lowest amount of NPAs. In case of private banks HDFC bank has lowest range, which show the lowest amount of NPAs in selected private banks.
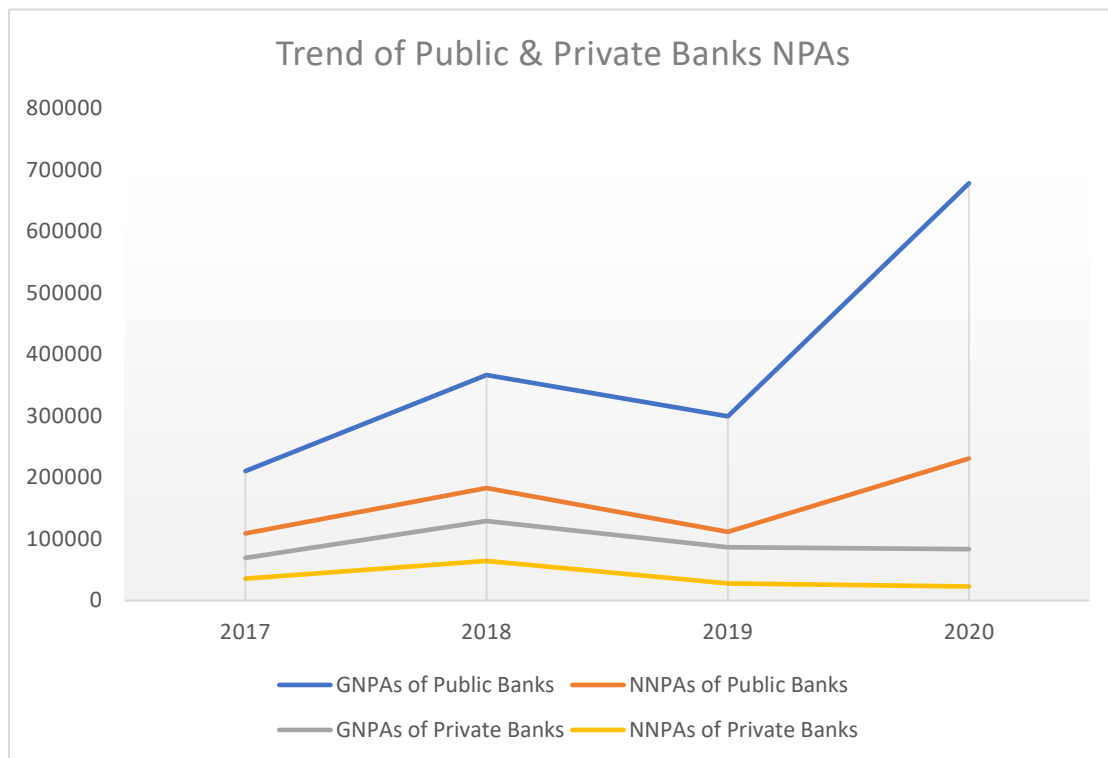
Hypothesis Testing:

1. H1 = Private bank has higher NPAs then government banks.

According to data analysis of RBI 2017 to 2020 we found that private banks has less NPAs then public banks. For first hypothesis analysis we have used Trend Analysis from 2017 to 2020. We found that the public sector has higher NPAs than private sector Banks. So, reject our first Hypothesis and conclude that public sector banks have higher NPAs.

Table 5.1: Yearly Trend of GNPAs and NNPAs in Selected Bank from 2017 to 2020, (Data in millions.)

Year	GNPAs of Public Banks	NNPAs of Public Banks	GNPAs of Private Banks	NNPAs of Private Banks
2017	210432.14	109060.26	69325.53	35687.35
2018	366527.89	183021.64	129355.24	64380.47
2019	299455.82	111541.9	86690.14	27939.8
2020	678317	230917.59	83712.88	22826.01

Figure 5.1: Trend Analysis of Government and Private Banks GNPAs and NNPAs, (Data in Millions)

2. H0 =There is no significant difference between private and public banks.

The second hypothesis is null hypothesis. For Analysis the second hypothesis we have used t-test for measuring significant difference between selected public and private banks. We have selected 6 banks. Out of which three banks are private and three banks are public. H0 = Public Banks NPAs = Private Banks NPAs. Technically H0 - $\mu = \sigma$, μ = Public Banks NPAs, σ = Private banks NPAs H1 = $\mu < \sigma$

t-Test: Paired Two Sample for Means

	Variable 1
Mean	705095.255
Variance	25822967625
Observations	4
Pearson Correlation	0.271848137
Hypothesized Mean Difference	8
Df	3
t Stat	7.116565748
P(T<=t) one-tail	0.002854888
t Critical one-tail	2.353363435
P(T<=t) two-tail	0.005709776
t Critical two-tail	3.182446305

P- value = 0.0028 t-Test Statistic = 2.353 (acceptance area) t-calculated value = 3.1820, Significant value (α) = 0.05 Because there is higher value of t-calculated than t-statistic we reject the Null Hypothesis. And conclude that there is a big difference between public banks NPAs and private banks NPAs. We accept our alternate hypothesis which we found that public banks have higher NPAs than private banks.

CONCLUSION

In our study we found that there is high difference between private and public banks NPAs. Public bank has high rate of bad loan due to weak policies of banking loan and assuring risk investment. We found from 2017 to 2018 NPAs data in public sector increased very fast but in next two three year it has fallen down. After 2018 NPAs in government sector decreased slowly. In our first test the data rejected null hypothesis. because public sector has higher NPAs then private sector. second hypothesis is rejected because there is significant difference between private and public banks NPAs that means different policies are needed for removing private sector banks NPAs and public sector banks NPAs. If government want to remove NPAs from Indian banking system they need two different policies for public sector and private sector. In our test we found there is a positive relationship between private and public bank. which means public sector NPAs promote private banks NPAs. In our study we found that there is a big difference in public and private banks NPAs because private sector checks and evaluate the risk of loan that's why private sector has low NPAs rather than public sector NPAs.

SUGGESTION

For further development these types of research paper should be published on future trend of NPAs. Several studies had been done on public banks NPAs but non on small marginal farming NPAs. These should be amendment in banking low that should give more powers to RBI to monitor bank accounts of big defaulters. There is need of one commit for removing NPAs from public sector banks who will guide the public banks and measure the risk of loan and investment of government.

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