

A Comparative Study of Non Performing Assets Management of Selected Units (Hdfc & Pnb)

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Abstract-The banking industry has undergone a sea change after the first phase of economic liberalization in 1991. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc..In recent times the banks have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs). There are drastic changes in the banking sector prevailing to the economy of India. Non performing assets are affected to the level of banking industries and economy of the India. The management of NPA is important task for every bank. If NPA is not properly managed then it can cause financially and economically losses to the bank. Non performing assets management is important tool for banking and financial performance of the sector. NPA are reduces the margin & higher provision requirement for doubtful debts. This managing NPA should be at all the levels to minimize the bad debt losses .This research paper cover under the comparative study of HDFC Bank and Punjab National Bank . The research paper is based on the empirical study that will explore the trends in the non-performing assets of commercial banks in India in different sectors over the past three years ranging from 2020-21 to 2022-23 and will also suggest the strategies for reducing them.

Keywords- Non Performing Assets, Profitability, Sectors, Strategies

I. INTRODUCTION

There are drastic changes in the banking sector prevailing to the economy of India. Non performing assets are affected to the level of banking industries and economy of the India. The management of NPA is important task for every bank. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the margin and shareholder's fund of banks and also destroy the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall margin and value of share.

NPA is 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. Non-performing assets are problematic for financial institutions since they depend on interest payments for income.

Troublesome pressure from the economy can lead to a sharp increase in non-performing loans and often results in massive write-downs.

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

Classification

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

1. Sub-standard assets: a sub standard asset is one which has been classified as NPA for a period not exceeding 12 months.
2. Doubtful Assets: a doubtful asset is one which has remained NPA for a period exceeding 12 months.
3. Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors but the amount has not been written off, wholly or partly.

Sub-standard asset is the asset in which bank have to maintain 15% of its reserves. All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets. All those assets which cannot be recovered are called as Loss Assets.

Causes For Non-Performing Assets:

A strong banking sector is important for a flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. The Indian banking system, which was operating in a closed economy, now faces the challenges of an open economy. It is very unfortunate that non-Performing assets have increased not due to economic slow down, delay in implementation of project, it is due to improper assessment of the proposals. Many banks still rely upon proposals come chartered accountants, intermediaries etc who just want to earn commission bring in proposal and recovery procedure is not effective. There are cases banks have lend crores of rupees, in spite of borrower had no background of business activity. The gross NPAs of public sector banks(PNB) stood at Rs. 13466 crores by the year 2022-23 and private sector banks(HDFC) stood at Rs.2335. As far as old NPAs are concerned, a bank can remove it on its own or sell the assets to AMC's to clean up its balance sheet. For preventing fresh NPAs, the bank itself should adopt proper policies. There are various factors behind the transformations of assets from performing to non-performing. The causes are funds borrowed for a particular Projects not completed in time, Poor recovery of receivables, lack of proper follow-up, Delay in sanctioning, Non-co-operation of Govt. Agencies in recovery, Social-political pressures, Imbalances of inventories, Poor quality management, Willful defaults, Natural calamities, Product failure due to lack of demand or quality, Industrial recession, power shortage, excess capacity, Strikes, lockouts and labour problems, heavy market competition, Sluggish legal system, Low morale and ethics.

II. LITERATURE REVIEW

Dutta. A (2014): This paper studied the growth of NPA in the public and private sector banks in India , and analysed sector wise non-performing assets of the commercial banks. For the purpose of the study data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Das, S. (2010): In this paper the author has tried to analyse the parameters which are actually the reasons of NPAs, and those are, market failure, wilful defaults, poor follow-up and supervision, non-cooperation from banks, poor Legal framework, lack of entrepreneurial skills, and diversion of funds

Ahmad, Z., Jegadeeshwaran, M. (2013): The current paper is written on the NPA, and causes for NPA. Secondary data was collected for a period of five years and analysed by mean, CAGR, ANOVA and ranking banks. The banks were ranked as per their performance in managing the NPA's. The efficiency in managing the NPA by the nationalised banks was tested.

Ranjan, R., Dhal, S.C. (2013): This paper explores an empirical approach to the analysis of the Indian commercial banks' nonperforming loans by regression analysis. The empirical analysis evaluates as to how the NPLs are influenced by three major sets of economic and financial factors, i.e., terms of credit, bank size induced risk preferences and macroeconomic shocks.

In another study, **Mohan (2003)** observed that lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds. While banks have reduced their prime lending rates (PLRs) to some extent and are also extending sub-PLR loans, effective lending rates continue to remain high. This development has adverse systemic implications, especially in a country like India here interest cost as a proportion of sales of corporates are much higher as compared to many emerging economies. The problem of NPAs is related to several internal and external factors confronting the borrowers.

VivekRajbahadurSingh (2016) this research paper found that NPA is just not only problem for the Banks but for economic too. Its studies the status of NPAs of Indian scheduled commercial Banks in India. It also studies the impact of NPAs on banks and also known the recovery of NPAs through various channels. It also gives appropriate suggestions to avoid future NPAs and to manage existing NPAs in Banks .The study shows that extent of NPA is comparatively very high in Public Sector Banks. NPAs level of our banks is still high as compared to foreign Banks. It is not at all possible to have zero NPAs .The Bank management should speed up the recovery process.

HaraniB, Subramanyam Mutyala (DEC 2019) their investigations indicates that NPAs problem is a very serious concern and its an endless battle in India because it destroys the sound financial position of them.

This problem has to be addressed in such a way that it should not impact on the financial position and image of the Banks. The study analysis the sector wise classification NPAs and loan Assets of public and Private sectors banks. It also examines the gross NPAs, Gross Advance and Gross NPA Ratio of Public and Private sector Banks in India. The study also reveals that non-priority sector loans have worsened NPAs which cause problem for Public Sector Banks

III. OBJECTIVE OF THE STUDY

1. To analyze the impact on profitability by rise in NPA's in an Indian banks.
2. To study about model of the management of NPA in public and private sector banks.
3. To analyze statistical correlation between different factors of NPA measures.

IV. RESEARCH METHODOLOGY

- 1) Method of Data Collection: The research is fully based upon secondary data and the data was collected from the published annual report by internet.
- 2) Time period of the study: to cover only 3 years from 2020-21—2022-23.
- 3) Selection of the sample: Sample was selected from public and private sector banks
- 4) Limitations of the study:
 - a) The data was only analyzed was of HDFC Bank and PNB.
 - b) Other banking organizations are not taken into account.
 - c) Time and cost of the study are also limited.
 - d) Unless it is in financial report then this is the secret data of banks point of view.

V. ORGANIZATION PROFILE

Punjab National Bank

Punjab National Bank was registered on 19 May 1894 under the Indian Companies Act, with its office in Anarkali Bazaar, Lahore. The founding board was drawn from different parts of India professing different faiths and a varied back-ground with, however, the common objective of providing country with a truly national bank which would further the economic interest of the country.

PNB's founders included several leaders of the Swadeshi movement such as Dyal Singh Majithia and Lala Harkishan Lal, Lala Lalchand, Shri Kali Prosanna Roy, Shri E.C. Jessawala, Shri Prabhu Dayal, Bakshi Jaishi Ram, and Lala Dholan Dass. Lala Lajpat Rai was actively associated with the management of the Bank in its early years. The board first met on 23 May 1894. Ironically, the PNB Website now claims Lala Lajpat Rai to be the founding father, surpassing Rai Mul Raj and Dyal Singh Majithia. The bank opened for business on 12 April 1895 in Lahore. PNB has the distinction of being the first Indian bank to have been started solely with Indian capital that has survived to the present. (The first entirely Indian bank, Commercial Bank, was established in 1881 in Faizabad, but failed in 1958.) PNB has had the privilege of maintaining accounts of national leaders such as Mahatma Gandhi, Shri Jawahar Lal Nehru, Shri Lal Bahadur Shastri, Shrimati Indira Gandhi, as well as the account of the famous.

HDFC Bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an "in principle" approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of "HDFC Bank Limited", with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank began operations in 1995 with a simple mission: to be a **"World-class Indian Bank"**. We realized that only a single-minded focus on product quality and service excellence would help us get there. Today, we are proud to say that we are well on our way towards that goal. It is extremely gratifying that our efforts towards providing customer convenience have been appreciated both nationally and internationally.

VI. DATA ANALYSIS AND INTERPRETATION

HDFC Bank

TABLE -1
(A) GROSS NPA TO TOTAL ADVANCES

HDFC Bank			
Year	Gross NPAs	Total Advances	Gross NPA/Total Advances
2020-21	1694	159983	0.011
2021-22	1999	195420	0.010
2022-23	2335	239721	0.010

Sources: Published annual report of HDFC Bank from 2020-21 to 2022-23

Interpretation: The table no.1 shows the gross NPA against Total advances is 0.011, 0.010 and 0.010 in the year 2020-

21, 2021-22 and 2022-23 respectively. This situation is more consistent.

GRAPHICAL REPRESENTATION-1:

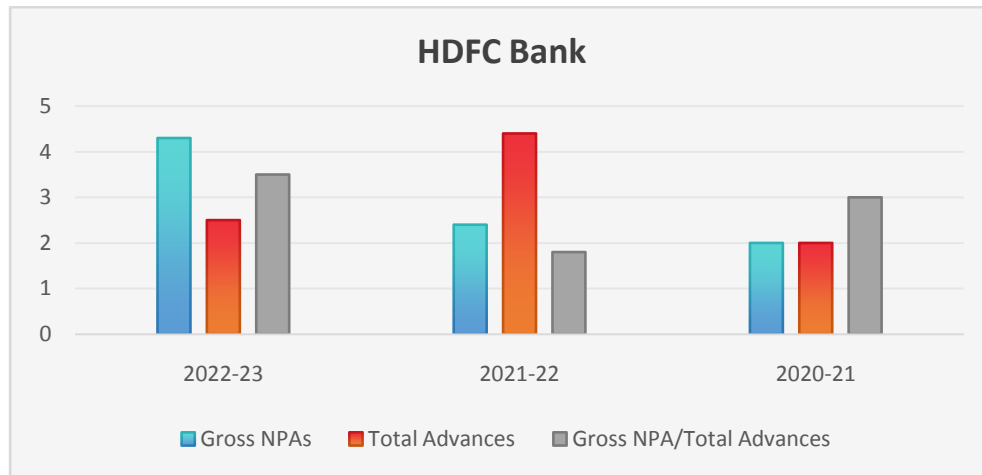


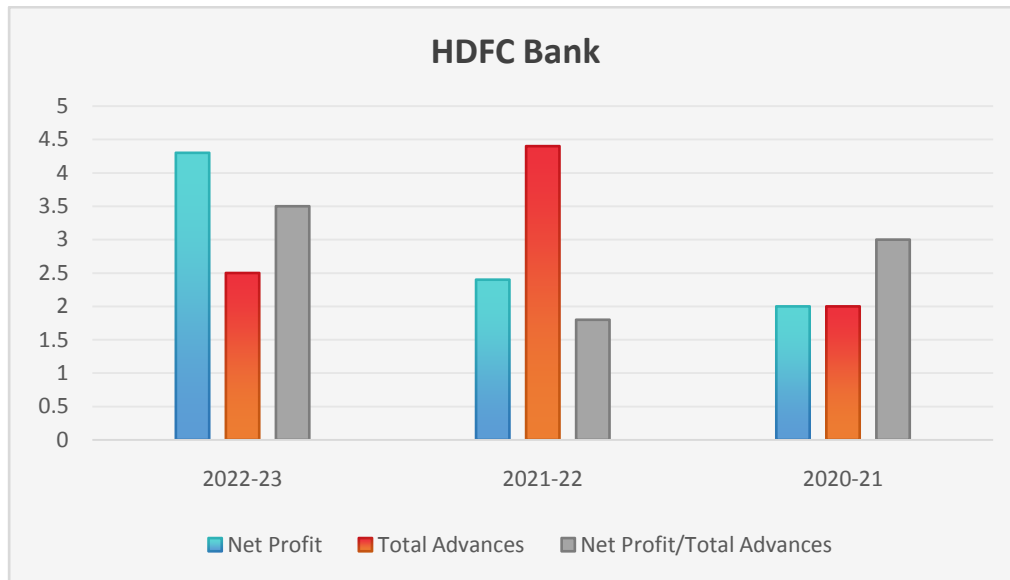
TABLE-2
(B) NET PROFIT TO TOTAL ADVANCES:

HDFC Bank			
Year	Net Profit	Total Advances	Net Profit /Total Advances
2020-21	3926	159983	0.025
2021-22	5167	195420	0.026
2022-23	6726	239721	0.028

Interpretation: The table no.2 shows the Net Profit against Total advances is 0.025, 0.026 and 0.028 in the year 2020-21, 2021-22 and 2022-23 respectively. This indicator shows the projected profit due to control NPA.

Sources: Published annual report from 2020-21—2022-23

GRAPHICAL REPRESENTATION-2:



Punjab National Bank

Table-3
(A) GROSS NPA TO TOTAL ADVANCES

Punjab National Bank			
Year	Gross NPAs	Total Advances	Gross NPA/Total Advances
2020-21	4379	242107	0.018
2021-22	8720	293775	0.030
2022-23	13466	308725	0.044

Interpretation: The table no.3 shows the Gross NPA against Total advances is 0.018, 0.030 and 0.044 in the year 2020-21,2021-22 and 2022-23 respectively. This indicator shows the increase NPA during these years

GRAPHICAL REPRESENTATION-3 :

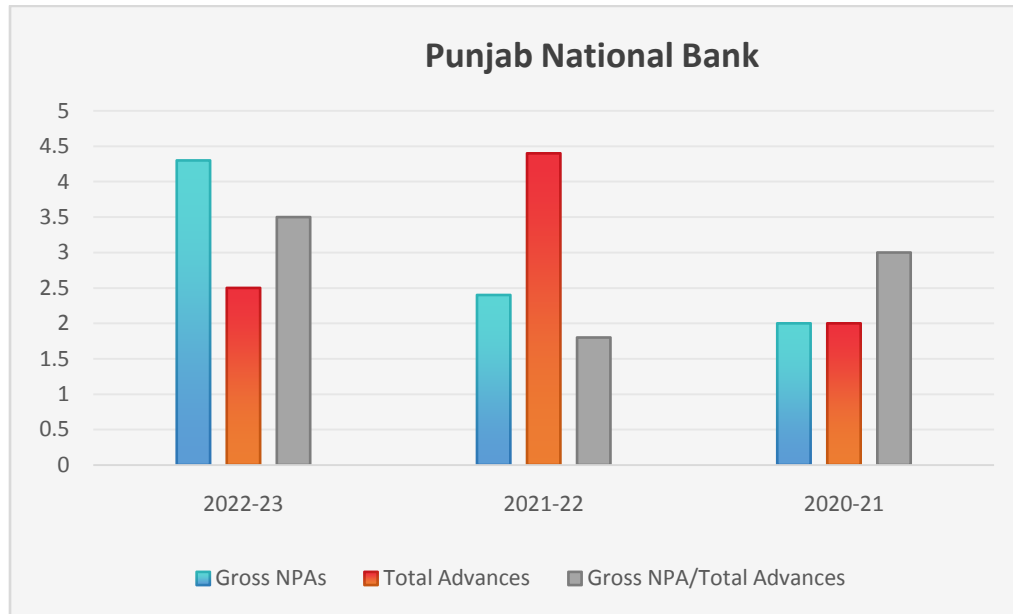
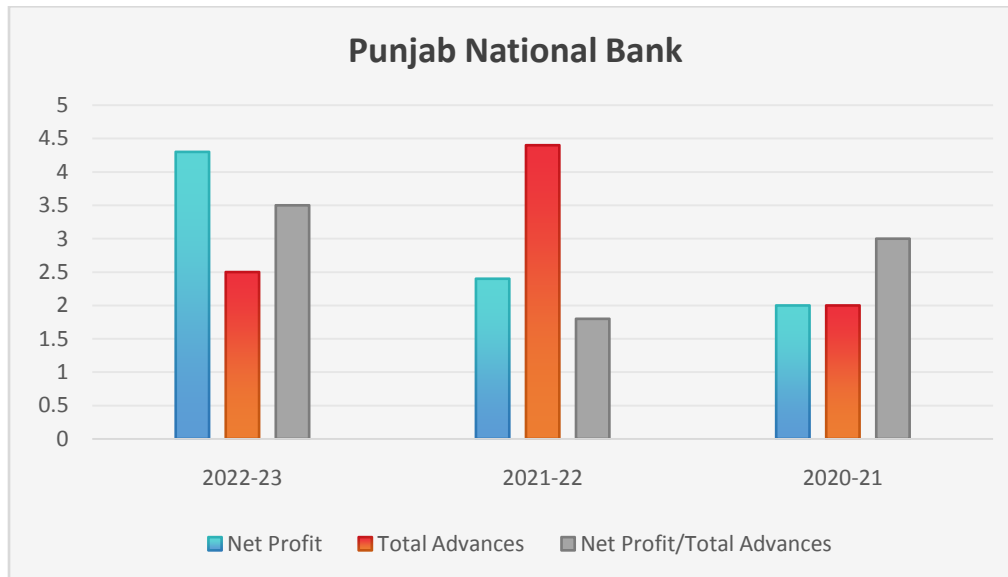


TABLE-4
(B) NET PROFIT TO TOTAL ADVANCES:

Punjab National Bank			
Year	Net Profit	Total Advances	Net Profit /Total Advances
2020-21	4431	242107	0.018
2021-22	4884	293775	0.017
2022-23	4748	308725	0.015

Interpretation: The table no.4 shows the Net Profit against Total advances is 0.018, 0.017 and 0.015 in the year 2020-21, 2021-22 and 2022-23 respectively. This indicator shows the profit is decline due to controlling of NPA.

GRAPHICAL REPRESENTATION:-4



VII. REMEDIES/SUGGESTIONS FOR REDUCING NPAS

To control the NPAs, some remedial measures are suggested as follows:-

1. There must be an effective and regular follow-up with the customers and need to watch is there any diversion of funds. This process can be taken up at regular intervals.
2. A number of personal visits after sanction and disbursal of credit and close monitoring of the operations of the accounts of borrowed units.
3. A healthy relationship should be developed between the Bankers and borrower. Many instances reported that the bank uses force in recovery of loans, which is unethical.
4. Banks have to take decisions regarding filing of suits expeditiously and effectively follow-up the filed and decreed cases.
5. Managers in charge of non-performing assets should have dynamism and seal in their work. But many of them are worried due to accountability fixed arbitrarily. Many managers say that "we do not fear to negotiate but we do not negotiate out of fear. Such fear leads to arbitrary negotiation, which fails.
6. Frequent discussions with the staff in the branch and taking their suggestions for recovery of NPAs make them feel responsible.
7. Assisting the borrowers in developing his/her entrepreneurial skill will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.
8. Another way to manage NPAs by banks is compromise settlement schemes or One Time Settlement Scheme (OTS). However, under such schemes the banks keep the actual amount recovered in secret, under these circumstances, it is necessary to bring more transparency in such deals so that any flaw could be removed.
9. RBI need to take necessary actions against defaulters like, publishing names of defaulters in News papers, broadcasting media, which is helpful to other banks and financial institutions.
10. If the delinquencies are due to reasons beyond the control of borrower i.e. draughts, floods, natural disasters etc the banker should suitably restructure the loans taking into consideration of the genuine difficulty of the borrowers.
11. In the export related loan, banks have to check the authenticity of the firm with the export houses.

VIII. CONCLUSION

NPAs reflect the overall performance of the banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset.

The problem of NPAs has been a major issue for the banking industry. The RBI which is the apex body for controlling level of non-performing assets have been giving guidelines and getting norms for the banks in order to control the incidents of faults. Reduction of NPAs in banking sector should be treated as national priority item to make the Indian Banking system more strong, vibrant and geared to meet the challenges of globalization. In the year 2020-21 the gross NPAs of HDFC Bank was 11 per cent and it has come down to 10 per cent by the end of 2021-22& 2022-23 whereas in the case of Public Sector Banks(PUNJAB NATIONAL BANK) it has come up from 1.8 to 4.4 per cent for the above period. It is observed from the study that there is tremendous decline in NPAs of HDFC Bank but the NPAs of Public Sector Banks (PNB) during the study period is increased, even though enormous growth in advances in HDFC bank as compare to PNB bank. This was resulted with the introduction of prudential norms. The use of technology like Core Banking Solutions will bring change Indian Banking to manage their non-performing assets. So, PNB use the careful steps like selection of right borrowers, viable economic activity, adequate finance and timely disbursement, correct end use of funds and timely recovery of loans are absolutely necessary pre conditions for preventing or minimizing the incidence of new NPAs which will enhance the creditability of the bank.

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