A Comparative Study of Assets Quality of Selected Public and Private Sector Banks in India

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Abstract — ***The banking is that the life blood of the economy acting as a catalyst within the regulation and observance of economic activities and contributes for economic process. They play an important role as makers and purveyors of cash in effective allocation of idle savings to productive utilization. As a fiduciary it provides leverage by bring cash and cash connected assets to the access of necessitous borrowers or for the other developmental activities. During this process banks are liable to risk of loss because of the uncertainties of counter party. The rise in default is resulting in rise in Non-Performing Assets, impairing the profitableness and quality assets in monetary statements of banking system. the current paper examines standing of quality assets of Indian banking system in reference to Non-Performing Assets to advances of chosen public and private sector Banks for five years from 2011 – 12 to 2015 – 16 supported secondary source of data retrieved from annual reports of every chosen banks. The study discovered that there's major penetration of advances from Public Sector Banks indicating higher share among chosen scheduled commercial Banks and there's tremendous increase in advances over the period of study, however the decline trend in NPAs shown improvement within the asset quality of scheduled commercial Banks of India.***

Index Terms — ***Net NPA to Net Advance Ratio, Net NPA to Total Assets Ratio, Total Investment to Total Assets Ratio, t - test.***

I. INTRODUCTION

The banking business is that the life blood of economy that has gained significance in regulation monetary and economic aspects of the economy. The banking industry reforms the core of the financial sector of an economy meeting the monetary desires of trade and industry and additionally to satisfy the institutions of the country. Te role of banking and monetary institutions is especially vital in underdeveloped countries. Banks are each maker of cash and purveyors of cash. Trough mobilization of resources and their higher allocation, banking and monetary institutions play a crucial role within the development process of underdeveloped countries. They play intermediate operate during a fiduciary capability and provide leverage to the accumulated funds through credit creation. Availing credit to borrowers is one suggests that by that banks contribute to the expansion of economies.

In the process of attainment of balanced regional developmental, banks promote social objectives by offering lending and investment activities in those regions or a part of the country that are less developed. Even banks offer engaging saving schemes, making certain safety of deposits and here by facilitate in remodeling idle savings/unproductive re-sources into effective and productive one. Banks additionally acts as a supporter in generation of employment opportunities by lending cash to priority sectors of the economy like agriculture, MSMEs, retail traders, tiny borrowers, self-employed and etc.

II. REVIEW OF LITERATURE

Comprehensive and thorough studies are conducted on increase within the menace of Non-Performing Assets. A short clarification of literature review is given below:

Bhattacharaya, “Banking strategy, Credit Appraisal and lending Decision”, within the study investigator opined the very fact that in an increasing rate regime, quality borrowers might tend to different avenues like capital markets, internal accruals to fulfill their credit needs. In such context the banks might dilute the standard of borrowers there by increasing the chance of generation of NPAs.

Das, “Management of Non – performing Assets in Indian Public Sector Banks with special reference to Jharkhand”, in this study investigator justifiably pointed the very fact that enlargement of credit may be a must for a country like India. it had been found that prime credit growth might cause high NPAs. He opined that the effective and regular follow-up of the credit sanctioned is critical to determine any misappropriation or diversion of funds.

Balasubramaniam, “Non-Performing Assets and profitability of commercial Banks In India: Assessment and emerging Issues”, Te abstract study discovered that within the competitive world bank face a challenges in their business operations with introduction of NBFC’s and foreign banks and by following the city III norms to be introduce would build banks to bring monetary stability in their performance.

Mahajan, ‘Trends of NPAs in Indian Banking Sector’, the investigator targeted compare the standing of Indian banking NPAs with BRICS nations. In his study it had been known the APEC countries think about a loan as Non - performing solely when it's been behind for a minimum of six months whereas in India it's thought of as NPA if it's due for 90 days, however the recovery process in India is time taking process compared to developing countries. Therefore finally the study over that magnitude of India banking NPAs is high compared to developing countries.

Sharma, “NPA:-A Comparative Study Of Public Sector and private Sector commercial Banks”, Te investigator studied trends in NPAs of public sector banks throughout 2001 to 2013 and analyzed the information using statistical tools. Te analysis resulted showing there's constant rise in values of Gross NPA and net NPA from 2000-2004 and decline trend from 2004-2008 and at the moment it's increasing at constant. Whereas the private sector banks it had been discovered that Gross NPA and net NPA is in raised trend from 2000 to 2003 and decline trend up to 2006 and thenceforth it showed raised trend.

III. OBJECTIVES OF STUDY

An empirical attempt is formed within the current paper to research Non – performing Assets supported following objectives.

1) To study the trend level of asset quality in selected banks.
2) To compare asset quality of selected Public and private Sector Banks.

IV. RESEARCH METHODOLOGY

The present study thinks about with the Indian banking industry. For this study, five public sector nationalized banks and five private sector banks are chosen. The study relies on secondary data for a period of 5 years, 2011 – 12 to 2015 – 16. The desired information is collected from the assorted problems with Banking Statistics, published by the reserve bank of India on RBI web site.

To compare the performance of selected Public and private sector banks, ratio analysis as an accounting tool whereas 't – test' as a statistical tools is employed.

The following ratios are analysed to look at the Assets quality of the study (Banks):

A). Net NPA to Net Advance Ratio

B). Net NPA to Total Assets Ratio

C). Total Investment To Total Assets Ratio

A). Net NPA to Net Advances

It is the foremost normal measure of assets quality. During this ratio, net NPAs are measured as a proportion of net Advances. Net NPAs are calculated by deducting net of provisions on non performing assets and interest highly strung account from Gross NPAs. Lower the ratio higher is that the advance (Asset) quality.

$$= \frac{\text{Net NPA's}}{\text{Net Advances}} \times 100$$

Table 1: Net NPA to Net Advances

Banks		2011-12	2012-13	2013-14	2014-15	2015-16	Mean	Rank
Public Sector Banks	SBI	1.82	2.10	2.57	2.12	3.81	2.48	7
	BOB	0.54	1.28	1.52	1.89	5.06	2.06	6
	PNB	1.52	2.35	2.85	4.06	8.61	3.88	9
	CA.B	1.46	2.18	1.98	2.65	6.42	2.94	8
	CBI	3.09	2.90	3.75	3.61	7.36	4.14	10
Private Sector Banks	HDFC	0.18	0.20	0.27	0.25	0.28	0.24	1
	ICICI	0.73	0.77	0.97	1.81	2.98	1.45	5
	KOTAK	0.61	0.64	1.08	0.92	1.06	0.86	4
	AXIS	0.27	0.36	0.44	0.46	0.74	0.45	3
	INDUS	0.27	0.31	0.33	0.31	0.36	0.32	2

(Source: Calculated from annual reports of selected banks)

Analysis

As per the above calculation it is found that Net NPA to Net Advances is lowest in HDFC bank and IndusInd bank with average 0.24 and 0.32 which is followed by Axis bank with average 0.45 while Highest Ratio found by Central bank of India with Average of 4.14 likewise Punjab National Bank also having high Average Ratio of 3.88 in compare to other research unit during research period.

Statistical Analysis

H_0: There is no significant difference in Net NPA to Net Advances Ratio of the selected group of Banks

H_1: There is no significant difference in Net NPA to Net Advances Ratio of the selected group of Banks

Table 2: t - test for Net NPA to Net Advances Ratio

Banks	Mean	D.F.	t - value	t. Crit.	Hypothesis
Public sector Banks	3.100	4	4.581	2.132	H_1 Accepted
Private Sector Banks	0.664				

Consider above testing is identify that the calculated value is 4.581 and 5 % level of significance with 4 degree of freedom is 2.132. Hence the calculated value is more than the table value of t - test means the H_1 is accepted.

Conclude that there is a significance difference of Net NPA to Net Advances Ratio of selected Public and Private Sector banks.

B). Net NPA to Total Assets

This ratio indicates the potency of the bank in assessing credit risk and, to an extent, recovering the debts. The ratio is arrived by dividing net NPAs by Total Assets. Total assets thought of are net of revaluation reserves. Lower ratio indicates higher quality of advances (better utilization of assets) & performance of the Bank.

Formula:

$$= \frac{\text{Net NPA}}{\text{Total Assets}} \times 100$$

Table 3: Net NPA to Total Assets

Banks		2011-12	2012-13	2013-14	2014-15	2015-16	Mean	Rank
Public Sector Banks	SBI	1.18	1.40	1.74	1.35	2.47	1.63	7
	BOB	0.35	0.77	0.92	1.13	2.89	1.21	6
	PNB	0.97	1.51	1.80	2.55	5.31	2.43	9
	CA.B	0.91	1.28	1.21	1.59	3.77	1.75	8
	CBI	1.98	1.86	2.30	2.18	4.34	2.53	10
Private Sector Banks	HDFC	0.10	0.12	0.17	0.15	0.19	0.18	1
	ICICI	0.39	0.42	0.55	0.97	1.80	0.84	5
	KOTAK	0.36	0.37	0.67	0.57	0.66	0.75	4
	AXIS	0.17	0.21	0.27	0.29	0.48	0.26	2
	INDUS	0.16	0.19	0.21	0.19	0.23	0.46	3

(Source: Calculated from annual reports of selected banks)

Analysis

As per the above calculation it is found that Net NPA to Total Asset is lowest in HDFC bank average of 0.18 which is followed by Axis bank with Average 0.26 while highest average Ratio found by CBI with Average of 2.53 likewise PNB also having high average Ratio of 2.43 in compare to other research unit during research period.

Statistical Analysis

H_0: There is no significant difference in Net NPA to Total Assets Ratio of the selected group of Banks

H_1: There is no significant difference in Net NPA to Total Assets Ratio of the selected group of Banks

Table 4: t - test for Net NPA to Total Assets Ratio

Banks	Mean	D.F.	t - value	t. Crit.	Hypothesis
Public sector Banks	1.910	4	4.981	2.132	H_1 Accepted
Private Sector Banks	0.499				

Consider above testing is identify that the calculated value is 4.981and 5 % level of significance with 4 degree of freedom is 2.132. Hence the calculated value is more than the table value of t - test means the H_1 is accepted.

Conclude that there is a significance difference of Net NPA to Total Assets Ratio of selected Public and Private Sector banks.

C). Total Investment to Total Assets

Total investments to total assets indicate the extent of preparation of assets in investment as against advances (Total Assets). The ratio is applied as a tool to live the proportion of total assets secured up in investments, which, by typical definition, doesn't kind a part of the core financial gain of the bank. A better level of investment indicates lack of credit off-take within the economy. This ratio is calculated by dividing total investments by total assets of the bank. a better ratio indicates that the bank has cautiously kept a high cushion of investment to protect against probable NPAs. However, this additionally affects its gain adversely. Whereas a low ratio indicates that bank is additional centered on its core activities, i. e. Advances.

Formula:

$$= \frac{\text{Total Investments}}{\text{Total Assets}} \times 100$$

Table 5: Total investments to Total assets

Banks		2011-12	2012-13	2013-14	2014-15	2015-16	Mean	Rank
Public Sector Banks	SBI	23.38	22.41	22.22	24.17	21.12	22.66	2
	BOB	18.60	22.19	17.61	17.11	17.94	18.69	1
	PNB	26.76	27.13	26.12	25.07	23.65	25.75	4
	CA.B	27.28	29.38	25.78	26.52	25.74	26.94	6
	CBI	25.78	27.08	29.75	30.61	29.09	28.46	7
Private Sector Banks	HDFC	28.85	27.88	24.60	28.19	23.12	26.53	5
	ICICI	33.69	31.93	29.77	28.88	22.26	29.30	8
	KOTAK	32.84	34.50	29.78	28.70	26.66	30.50	10
	AXIS	32.63	33.40	29.63	28.65	23.22	29.50	9
	INDUS	25.30	26.81	24.78	22.78	22.29	24.39	3

(Source: Calculated from annual reports of selected banks)

Analysis

Total Investment to Total Assets is one of the key ratios of Asset Quality of the banking industry. As per the above calculation it is found that BOB is leading with lowest average of 18.69 which is followed by SBI with 22.66 while highest average ratio is shown by Kotak Mahindra bank with 30.50 likewise Axis bank also having high average ratio of 29.50.

Statistical Analysis

H_0: There is no significant difference in Total investments to Total assets Ratio of the selected group of Banks

H_1: There is no significant difference in Total investments to Total assets Ratio of the selected group of Banks

Table 6: t - test for Total investments to Total assets Ratio

Banks	Mean	D.F.	t - value	t. Crit.	Hypothesis
Public sector Banks	24.499	4	-1.508	2.132	H_0 Accepted
Private Sector Banks	28.045				

Consider above testing is identify that the calculated value is -1.508 and 5 % level of significance with 4 degree of freedom is 2.132. Hence the calculated value is less than the table value of t - test means the H_0 is accepted.

Conclude that there is a no significance difference of Total investments to Total assets Ratio of selected Public and Private Sector banks.

V. CONCLUSION

From this study, it is concluded that Net NPA to Net Advances and Net NPA to Total Assets of each selected banks not having an equal assets quality during research period. While Total Investment to Total Assets of each selected banks are having an equal assets quality during research period. Hence, it is concluded that Total Investment and Net NPA are far variable to total Assets and Net Advances Respectively. While Net NPA to Total Assets is also variable factor. So, from this result, it can be said that assets quality of the selected banks is different during research period. As Private Sector Banks are more utilizing their assets for investment from total assets as compare to Public sector banks. Hence total assets utilization for the investment is shown higher by Private Sector Banks.

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