A Comparative Analysis of NPA Management between SBI and PNB

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Abstract

NPA plays an important role in performance measurement of any bank as it reduces the overall profitability of the bank. In this research paper the performance of the two public banks i.e. State Bank of India and Punjab National Bank in concern with NPA management is evaluated. Through this paper, it has been try to analyze how efficiently these two public sector banks are managing their NPAs with the help of various financial and statistical tools.

Keywords: NPA, performance measurement, financial tools

Introduction

Banking industry plays an important role in the development of an economy. Banks have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs). NPAs put detrimental impact on the profitability, capital adequacy ratio and credibility of banks. An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. As per the prudential norms suggested by the Reserve Bank of India (RBI), a bank cannot book interest on an NPA on accrual basis. In other words, such interests can be booked only when it has been actually received. Therefore, this has become what is called as a 'critical performance area' of the banking sector as the level of NPAs affects the profitability of a bank.

Therefore, an NPA account not only reduces profitability of banks by provisioning in the profit and loss account, but their carrying cost is also increased which results in excess & avoidable management attention Apart from this, a high level of NPA also puts strain on a banks net worth because banks are under pressure to maintain a desired level of Capital Adequacy and in the absence of comfortable profit level, banks eventually look towards their internal financial strength to fulfill the norms thereby slowly eroding the net worth. The present research paper focuses on NPA management between SBI & PNB.An asset is classified as non-performing asset (NPA) if the borrower does not pay dues in the form of principal and interest for a period of 180 days. However with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days.

Classification of Bank Assets Reserve Bank of India (RBI) has issued guidelines on provisioning requirement with respect to bank advances. In terms of these guidelines, bank advances are mainly classified into: **Standard Assets:** Such an asset is not a non- performing asset. In other words, it carries not more than normal risk attached to the business.

Sub-standard Assets: It is classified as non- performing asset for a period not exceeding 18 months. **Doubtful Assets:** Asset that has remained NPA for a period exceeding 18 months is a doubtful asset. **Loss Assets:** Here loss is identified by the banks concerned or by internal auditors or by external auditors or by Reserve Bank India (RBI) inspection.

In terms of RBI guidelines, as and when an asset becomes a NPA, such advances would be first classified as a sub-standard one for a period that should not exceed 18 months and subsequently as doubtful assets. It should be noted that the above classification is only for the purpose of computing the amount of provision that should be made with respect to bank advances and certainly not for the purpose of presentation of advances in the banks' balance sheet.

Literature Reviews

NPA Monitoring and Recovery Management is the biggest challenge for the Banking Industry. Asset quality of banks is one of the most important indicators of their financial health. It also reflects the efficacy of banks' credit risk management and the recovery environment. It is important that the signs of distress in all stressed accounts are detected early and those which are viable are also extended restructuring facilities expeditiously to preserve their economic value. Bhattacharya (2001) rightly points to the fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of NPAs. 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.

In the Indian context, Rajaraman and Vasishtha (2002) in an empirical study provided an evidence of significant bi-variate relationship between an operating inefficiency indicator and the problem loans of public sector banks. In a similar manner, largely from lenders' perspective, Das and Ghosh (2003) empirically examined non-performing loans of India's public sector banks in terms of various indicators such as asset size, credit growth and macroeconomic condition, and operating efficiency indicators.

Sergio (1996) in a study of non-performing loans in Italy found evidence that, an increase in the riskiness of loan assets is rooted in a bank's lending policy adducing to relatively unselective and inadequate assessment of sect oral prospects. Gupta's study (1983) on a sample of Indian companies financed by ICICI concludes that certain cash flows coverage ratios are better indicators of corporate sickness. Bhatia (1988) and Sahoo, Mishra and Soothpathy (1996) examine the predictive power of accounting ratios on a sample of sick and non-sick companies by applying the multi discriminant analysis techniques. In both the studies, the selected accounting ratios are effective in predicting industrial sickness with a high degree of precision.

Objectives

1. To study the impact of NPA on overall performance of selected banks.
2. To evaluate the efficiency in managing NPA between the selected banks.
3. To make suggestions for better NPA management in selected banks.

Hypotheses of study

H0 = There is no significant difference of NPA on overall performance between selected banks.

H1= There is significant difference of NPA on overall performance between selected banks.

H0 = There is no significant difference on efficiency in managing NPA between selected banks.

H1= There is significant difference on efficiency in managing NPA between selected banks.

Research design

1. The Sample:-

The universe of the study consist all the public sector banks. Here, researcher has been selected two public sector banks i.e., SBI and PNB for this comparative study.

2. The data collection and period of the study:-

The study has been carried out for a three year, i.e., during

2010 –11 to 2012 – 13. The reason behind selecting this period was availability of data for both sample banks under study. The study is based on secondary data.

3. Tools and techniques:-

As per the nature of study following tools and techniques are used for testing the hypotheses:

• Tool:- Ratio Analysis

• Statistical Techniques: - Mean, Standard deviation and T – test.

Table-1

Year	2011	2012	2013	Mean	S.D.	T-Value	Significance level	H0/H1
Gross NPA Ratio								
SBI	3.35	4.57	4.9	4.27	0.856	1.719	0.161	H0
PNB	1.81	2.96	4.36	3.04				
Net NPA Ratio								
SBI	1.63	1.82	2.10	1.85	0.252	0.579	0.594	H0
PNB	0.85	1.52	2.34	4.57				
CAR-Basel-I								
SBI	10.69	12.05	11.22	11.32	0.685	-1.24	0.281	H0
PNB	11.76	11.59	12.28	11.87				
CAR-Basel-II								
SBI	11.98	13.86	12.92	12.92	0.94	0.6	0.581	H0
PNB	12.42	12.63	12.72	12.59				
Return on Assets								
SBI	0.71	0.88	0.91	0.833	0.108	-3.07	0.037	H1
PNB	1.34	1.19	1.00	1.17				
Return on net worth								
SBI	12.71	13.94	14.26	13.63	0.818	-2.15	0.097	H0
PNB	20.61	17.55	14.52	17.56				

Analysis and Interpretation

1.The gross NPA Ratio of SBI reveals slightly increasing trend. The

Gross NPA Ratio of SBI was 3.35 in the year 2010 – 11 and then in the year 2011-2012 again increased to 4.57. In the year 2012-2013 ratio was declined to 4.9.In case of PNB gross NPA Ratio shows substantial increase. This Ratio shows 1.81 in the year 2010-11and then in the year 2011-2012 increased up to 2.96. In the year 2012-13 ratios was increased up to double i.e. to 4.36.

It is supported by t – value that both banks are same in this ratio.

2. For SBI, Net NPA Ratio show increasing trend during the study period. In the year 2010-11 ratio was 1.63 and in the year 2011-12 ratio was increased by 0.19. And finally ratio was increased in the year 2012 – 13 i.e., 2.10. In the case of PNB, also mix trend with the average of 1.27 in the Net NPA Ratio during study period. It indicate that there is no significant difference in Net NPA Ratio of selected banks, calculated value of “t” – test is less than the critical value of “t” – test. Thus H0 accepted.

3.Capital adequacy ratio if SBI shows increasing trend in first two years (2010 – 11 and 2011 – 12). During the 2010-11 ratio was 10.69 and in the year 2011– 12 ratio was declined up to 11.22.In case of PNB, ratio was 11.76 in the year 2010-11 and in next year 2011-12 it was 11.59, declined by few points. In the last year ratio was increased up by .69 and to 12.28. But T – value implies that there is no significant difference of capital adequacy ratio of selected banks.

4. While we calculate return on assets of SBI, it shows very slight increase in the ratio only in points i.e. in2010-11it was .71 , in 2011-12 it was .88 and in 2012-13 it was at .91. In case of PNB the ratio is showing totally adverse side in all the three years i.e. the ratio is declining (2010-11was at 1.34, in 2011-12 was 1.19 ,in 2012-13 was at 1.00).The average of ratio of both the banks are also showing substantial difference. The result of t – test indicates that there is significant difference in the Ratio. Thus H1is accepted.

5.For SBI, return on net worth ratio shows increasing trend but again the increase is quite nominal i.e.in the year 2010-11 ratio was 12.71 and then in the year 2011-12 ratio went up to 13.74 and in the last year it was at 14.26. In case of PNB the ratio shows declining trend and that too by substantial difference i.e. in the year 2010-11 it was 20.61 in year 2011-12 it went down to 17.55 and in 2012-13 it was 14.52.

The result of t – test indicates that there is no significant difference in the calculated Ratio.

Findings

Gross NPA of SBI is higher than the PNB which shows its management efficiency.

Net NPA of PNB is higher than the SBI which reveals its good position.

Both the Banks have complied the capital adequacy norms of RBI.

Capital adequacy ratio of SBI is fluctuating in comparison to PNB.

Return on assets of PNB is higher than SBI but it is declining. In case of SBI it is less than PNB but increasing.

Return on net worth of PNB is higher but in case of SBI is increasing where as it is declining in case of PNB.

Suggestions

As NPA plays an important part in profitability and performance measurement of a bank so a bank should always have a control over it according to the findings, the Gross NPA of SBI is higher so it requires reducing the gross NPA by efficient recovery management.

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