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NON-PERFORMING ASSETS MANAGEMENT: A COMPARATIVE STUDY OF SBI & HDFC BANK

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ABSTRACT

Banks, both private and public, represent an essential role in the Indian economy. They are the earliest type of banking, with a huge number of transactions spread throughout a broad region. Banking is critical to India's economic growth. NPAs are a big problem for banks these days. Non-performing assets (NPAs) are a key source of worry for financial institutions. Bank profitability is being impacted by a high level of nonperforming assets (NPAs).The increase in nonperforming assets necessitated more provisioning, which had a negative impact on profitability. Using secondary data collection, this study attempts to examine the non-performing assets management of SBI and HDFC Bank. This paper examines and analyses the causes of rising non-performing assets in banks, along with a few recommendations.

KEYWORDS*: NPA, Gross NPA, Net NPA, Gross Advance, Profit.*

Introduction

For a thriving economy, a strong banking sector is critical. Accepting deposits and making loans is one of the most essential functions of banks. It entails directing funds toward the nation's growth and development. The collapse of the banking industry has ramifications across the economy. Non-performing assets are a major source of worry for all banks these days.

An increased levels of nonperforming assets (NPAs) has a detrimental influence on a bank's profit and net value, as well as asset quality. If principal and interest are due but not collected, an asset's quality is classified as non-performing (NPAs).

Conceptual Framework of NPA

Non-performing assets (NPAs) are assets that are past due on interest or principal as specified under provisioning norms.

When principal or interest payments are late or not made, the debt is in default. When the lender breaches the loan agreement and the borrower seems unable to meet or complete his responsibilities, the loan is deemed defaulted.

NPAs (gross and net) are two types of nonperforming assets (NPAsGross non-performing assets (NPAs) are advances that are considered irretrievable, whereby a bank has made a provision, but are nevertheless maintained in the bank's accounting record. To put it another way, it's the total of all non-standard assets, such as sub-standard, doubtful, and loss assets.

Net NPA: the amount from which the bank has excluded the provision for nonperforming assets. The net nonperforming assets (NPA) indicates the banks' true burden. Because bank balance sheets in India include a large number of nonperforming assets (NPAs) and the process of recovering and writing off loans is time consuming, the provisions that banks must make against NPAs, according to central bank standards, are fairly large.

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Reasons of NPAs

- Carelessness and inappropriate selection of consumer's activities
- Weak credit assessment technique or system
- Industrial illness
- Inadequate borrower management
- Poor loan management & supervision
- Lack of follow up OR Inadequate care by banks
- Market recession or stagnation
- Natural and other causes

Objectives of Study

The study goals are:

- To examine SBI and HDFC's NPA trends over the last few years.
- To study purpose is to see how NPA affects performance
- To determine which bank is better at managing its nonperforming assets (NPAs).
- To learn more about the causes of NPAs.

Literature Review

Chatterjee, Mukherjee and Das (2012),"Studied Management of non-performing assets - has concluded that banks should find out the original reasons of the loan required by the borrower. Proper identification of the guarantor and proper documentation should be checked by the bank including scrutiny of his/her wealth. Framing reasonably well documented for loan & rules and regulations."

Dr. Poonam Mahajan (2014),"Studied the position of NPAs is improving in India. Though NPAs are having a declining trend over a period of study but Non Performing Assets of public sector banks are still higher than other banks. Top management of private and foreign sector banks is more professional, core competent and expert than public sector banks. So that's why they are more competent in making plans for recovering funds from borrowers (both individuals and institutional)."

Chaudhary and Sharma (2011),"Studied in their research paper on Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study stated that it is right time to take suitable and strict measures to get rid of NPA problem. An efficient and effective management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation, technologically expert and motivated to take measures in preventing advances turning into NPA. Public sector banks must pay proper attention on their functioning and also care NPAs to compete private banks. Banks should be cautious while selection of borrower or project and in analysing the financial statement."

Bhatia (2007),"Studied in his research paper entitled Nonperforming Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment explores to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. The NPAs are considered as akey factor to judge the performance and financial health of banks. The level of NPAs is one of the keysof financial stability and growth of the banking sector. This paper aims to find the fundamental factors or reasons which impact NPAs of banks."

D.Jayakkodi.,2015,"Studied on NPA's of selected Public and Private Sector Banks in India aimed to compare the Net NPAs of select Public and Private Sector Banks."

MistryandSavani2015,"Studiedand classified Indian private division banks on the basis of their monetary characteristics and analyzed their money related execution. They found that return on resources and interest have a negative relationship with operational productivity while, positive relationship with resource utilization and resource estimate."

Scope of the Study

With the aid of this study, banks can improve their financial situation or boost their revenue.

- This research may be used to compare the bank's performance.
- This research can also uncover the causes of the rise in NPAs.
- This research also sheds insight on the impact of nonperforming assets (NPAs) on bank profitability.

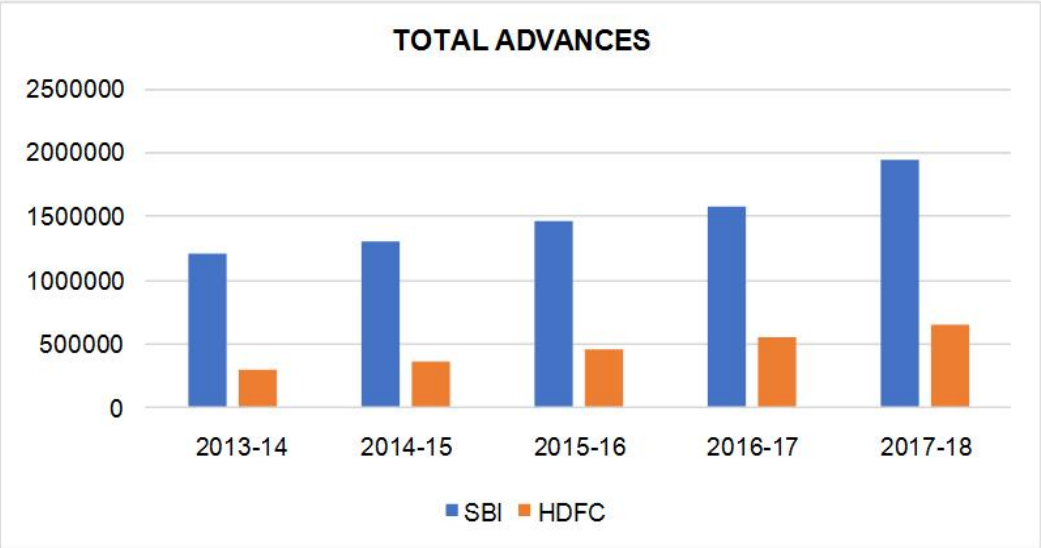
Research Methodology

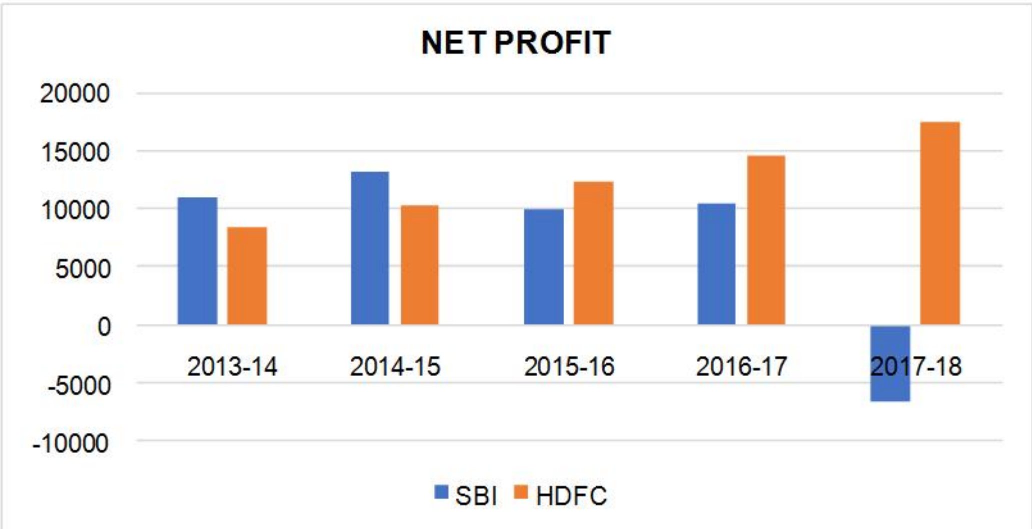
The current research is based on secondary data that has been analysed. The information was gathered from a variety of web sources as well as yearly reports from the different banks. Statistical techniques and trend analysis were used to analyse the data obtained. Tables are used to officially present data. A graphical depiction is also utilised to aid comprehension.

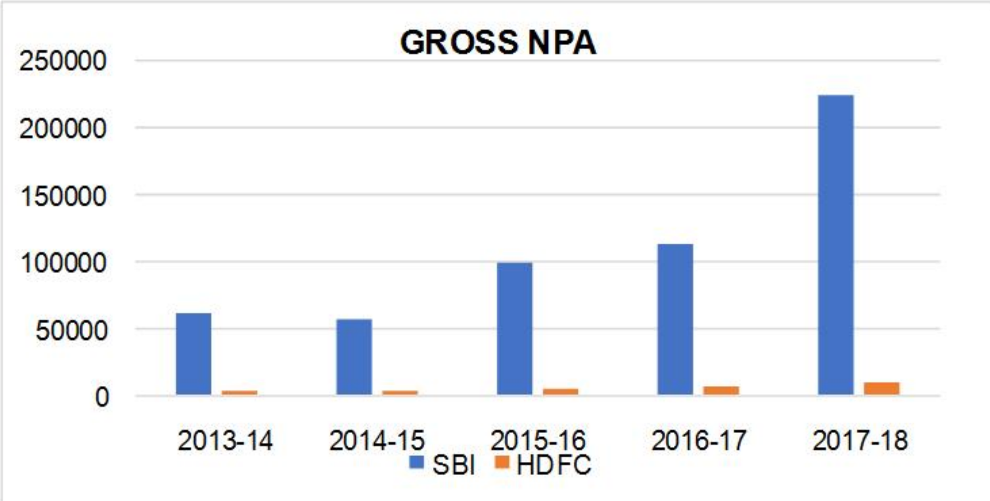
Data Analysis and Interpretation

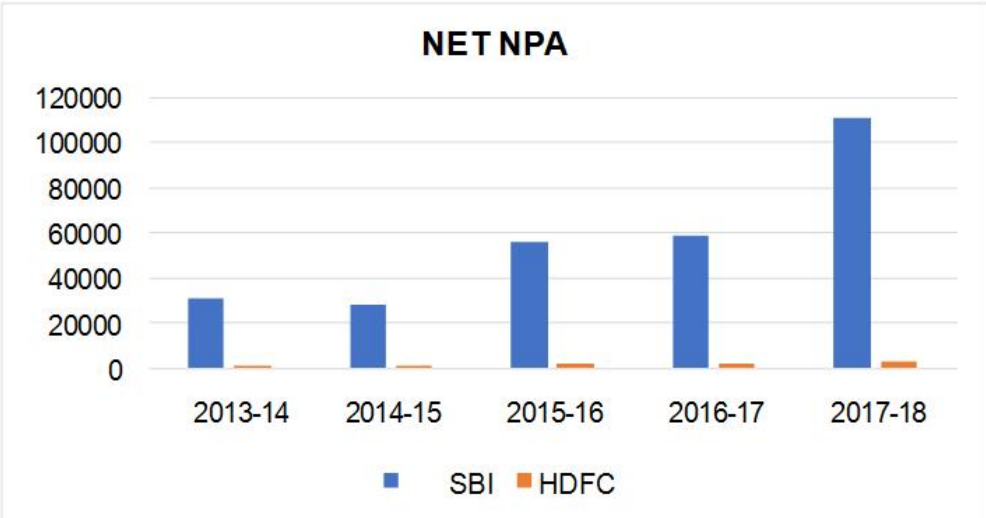
Advances, Profit, Gross NPA & Net NPA of both Banks

Year	Total Advances		Net Profit		Gross NPA		Net NPA	
	SBI	HDFC	SBI	HDFC	SBI	HDFC	SBI	HDFC
2013-14	1209828	303000	10891	8478	61605	2989	31096	820
2014-15	1300026	365495	13102	10216	56725	3438	27591	896
2015-16	1463700	464593	9951	12296	98173	4393	55807	1320
2016-17	1571078	554568	10484	14550	112343	5886	58277	1844
2017-18	1934880	658333	-6547	17487	223427	8607	110855	2601









From the following statistics, it is evident that Net Profit in HDFC Banks is growing steadily, from 8478.38 in 2013-14 to 17486.73 in 2017-18, but Profit in SBI is not constant, varying from 10891 in 2013-14 to loss 6547 in 2017-18.SBI has a greater gross NPA ratio than HDFC Bank, and the same is true for net NPA. As a result, we may infer that HDFC Bank's profitability and NPA management are superior to SBI Bank's.

In compared to SBI Bank, HDFC Bank has a greater capital adequacy ratio. This also implies that HDFC Bank's management is superior.

SBI Bank have to care about NPAs as its impacting negatively on Profitability as we can see that in year 2017-18 gross NPA and Net NPA almost doubled from last year figures, while Net Profit turned in negative side.

Reasons of NPAs

Finding

The following findings were designed from the above data analysis:

- SBI Bank has a higher NPA ratio than HDFC Bank, and the study also shows that big NPA rises as a result of government-recommended priority industries.
- SBI has a lower capital adequacy ratio than HDFC Bank.

- In both banks, overall advances have been trending increasing.
- SBI's net earnings have fluctuated throughout the years, but HDFC Banks have been relatively constant at approximately 10,000 crores.
- Private sector bank HDFC performs significantly better than public sector bank SBI Bank in terms of percent gross nonperforming assets.
- In terms of percent net NPA, HDFC bank outperforms SBI by a wide margin.

Conclusion

Study concludes that in present situation non-performing assets is a biggest challenge faced by both HDFC Bank and State Bank of India as it effects to downfall in liquidity balance of the Banks and creates bad debts on them. Profitability is being also affected due to the rising in NPA levels over the years in both the banks. On comparing the two Banks based on the data analyzed SBI has higher NPAs as compared to HDFC Bank. Besides rising NPA, SBI has not managed its profitability consistent, which reveals that the overall management ofthe Bank is not better. On the other hand, the net NPAs for HDFC bank are continuously decreasing since 2013-14. as compared to SBI they are in a much better position. The HDFC Bank has also shown good performance in the last few years. On the other hand, SBI Bank is facing the problem of non-performing assets. If the management of the Non-performing assets is not acknowledged or taken care it would hinder the trade of the Banks.

Suggestions

- The banker must exercise extreme caution before granting a loan, ensuring that the company or business for which the loan is requested is healthy, and that the customer is capable of effectively doing business, as well as being a person of great integrity, reliability, and good character.
- A banker must evaluate the balance sheet, which reveals the actual image of the firm through profit and loss assessment and balance sheet analysis. Banks should assess the objective of the loan and the real loan demand before extending it.
- The issue should be detected at the outset or quite early on so that firms can do everything possible to prevent an asset from becoming a nonperforming asset (NPA) and banks can do everything possible to recoup NPAs.
- Each bank should get its own training and credit score agency, which should train personnel and assess the consumer's financial capabilities before to granting credit.

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