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Non-Performing Assets: A Comparative Study of SBI & HDFC Bank.

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Abstract

The two Banking system of an economy is of predominant importance two for its monetary and financial development. It types the core of the monetary region and plays a necessary position in transmitting monetary coverage impulses to the whole economic machine. NPAs have turned to be a principal stumbling block affecting the profitability of Indian Banks before 1992, Banks did no longer divulge the horrific debts sustained through them and provision made by using them fearing that it may additionally have an adverse.

The introduction of prudential norms fortify the Banks monetary function and decorate transparency is regarded as a milestone measure in the financial sector reform.

An Explorative learn about was once adopted to achieve the objectives of the study, and they learn about used to be carried out in SBI Bank, "Non-Performing Assets". The objective of the study is to analyze the NPA stage, how some distance the financial organization has been successful in decreasing the NPA level.

This paper is an attempt to compare the non- performing assets of SBI and HDFC Bank using the secondary data analysis and to comment on their individual performances too. This study also identifies the cause of the increasing non-performing assets in the Banks with few suggestions have also been extended.

Introduction

A robust banking sector is very significant for healthy economy. One in every of the foremost vital and major roles contend by banking sector is that of loaning business. It's usually inspired as a result of it's the result of funds being transferred from the system to productive functions that conjointly results into economic process. As there area unit execs and cons of everything, constant is with loaning business that carries credit risk, that arises from the failure of receiver to satisfy its written agreement obligations either throughout the course of a dealing or on a future obligation. The failure of the banking sector could have Associate in nursing adverse impact on different sectors. Non- playing assets area unit one in every of the main considerations for banks in India. NPAs mirror the performance of banks.

A high level of NPAs suggests high chance of an oversized variety of credit defaults that have an effect on the gain and net-worth of banks and conjointly erodes the worth of the quality. The foreign terrorist organization growth involves the need of provisions that reduces the general profits and shareholders' worth. the difficulty of Non playing Assets has been mentioned at length for national economy everywhere the planet. The matter of NPAs isn't solely touching the banks however conjointly the full economy in truth high level of NPAs in Indian banks is nothing however a mirrored image of the state of health of the business and trade. This project deals with understanding the construct of NPAs, its magnitude associated major causes for an account changing into non-performing, projection of NPAs over next years in banks and closing remarks. The magnitude of NPAs have an instantaneous impact on Banks gain lawfully {|they're} not allowed to book financial gain on such accounts and at identical time banks are forced to create provisions on such assets as per tally tips.

An quality is assessed as non-performing quality (NPAs) if dues among the fashion of principal and interest are not paid by the receiver for a quantity of 1 hundred eighty days, however with result from March 2004, default standing would tend to a receiver if dues are not procured ninety days. If any advance or credit facility granted by bank to a receiver becomes nonperforming, then the bank will got to treat all the advances/credit facilities granted to that receiver as non-performing whereas not having any connection the particular undeniable fact that there ought to still exist positive advances / credit facilities having enjoying standing. The foreign terrorist group level of our banks is far high than international standards. One cannot ignore the particular undeniable fact that a part of the reduction in NPA's is because of the writing off dangerous loans by banks. Indian banks need to look out to form positive that they provide loans to credit worthy customers.

Introduction to Banking

Bank A financial institution that is licensed to deal with money and its substitutes by accommodating time and demand deposits, constructing loans, and spending in securities. The Bank generates profits from the modification in the interest rates charged and paid. The development of Banking is an inevitable precondition for the healthy and rapid development of the national economic structure. Banking institutions have contributed much to the development of the developed countries of the world. Today we cannot imagine the business world without banking institutions. Banking is as important as blood in the human body. Due to the development of Banking advances are increased and business activities developing so it is rightly said, "The development of Banking is not only the root but also the result of the development of the business world."

Classification of loans

In India Bank loans are categorized on the following basis:

Performing Assets: Loans where the interest and/or principal are not due over 180 days at the end of the FY.

Non-Performing Assets: Any loan repayment, which is overdue 180 days beyond or two quarters, is considered as NPA.

Impact / Effects of NPA on Banks

A robust Banking sector is important for prosperous economy. The letdown of the Banking sector may have an adversative impact on other sectors. NPAs are one of the major concerns for Banks in India. The only problem that hampers the possible financial presentation of the Banks is the cumulative results of the NPAs. Non-Performing Assets do not produce interest income for the Banks, but the same time Banks are required to make requirements for such NPAs from their contemporary profits.

- They grind down current profits through provisioning requirements.
- They result in reduced interest income.
- They need higher provisioning necessities affecting profits and addition to capital.
- They limit recycling of funds, set in assets-liability mismatches, etc.
- Adverse impact on Capital Adequacy Ratio.
- Bank's rating & goodwill gets affected.
- Bank's cost of raising funds goes up.
- Bad effect on equity value.

Objectives

The objectives of study are-

- To examine and compare the NPA trends of SBI and HDFC for past years.
- To study the impact of non-performing assets (NPA) and the reasons due to which assets becoming NPAs.
- To analyze which Bank (SBI and HDFC) is better in managing NPA's.
- To list the causes of the occurrence of NPA in both the Banks.
- To check whether there exist any relationship between Net Profit and Net NPA in case of both the Banks.

Literature Review

(Bhatia 2007) in his research paper entitled, Non-performing assets of Indian public, private and foreign sector banks studied that, the NPAs are considered as an important parameter to judge the performance and financial health of banks.This aims to find the fundamental factors which impact NPAs of banks.

(Meenakshi Rajeev, H P Mahesh 2010) in her studied, banking sector reforms and NPAs in Indian commercial banks to examine the trends of NPAs in India from various dimensions and to explain how immediate recognition and self-monitoring has been able to reduce it to a great extent.

(Saddu, 2011) An endeavor is made within the paper that what is NPA? The components contributing to NPA, the greatness of NPA, reason for tall NPA & their affect on Indian managing an account operations. Other than capital to chance weight age resources proportion of open & private segment banks, mgt of credit chance & measures to control the danger of NPA are too examined.

(Dr. G. Vadivalagan, 2013)There appears to be no unanimity within the appropriate arrangements to be followed in settling the issue. There's also no consistency within the application of NPA norms. The issue of NPA isn't constrained to as it were Indian public division banks but it wins within the whole heating industry.

(Srinivas, Dec-2013)This paper is embraced to consider the reasons for propels getting to be NPA within the Indian commercial banks & grant reasonable recommendation to overcome the issue. The crash of the keeping money division may have an unfavorable blow on the other division. A investor should be exceptionally cautious in lending, since investor isn't loaning cash out of his possess capital.

(H.S., January 2013)The research paper recognizes the impact of a set of small scale financial factors like age, sex, instruction and conjugal status etc. of Indian ranchers on the administration of their credit. Credit mgt. incorporates arranging, association, controlling, coordinating & co-coordinating the credit endorsing approaches in arrange to diminish the non performing resource.

(D.Jayakkodi.,2015)A Study on NPA's of selected Public and Private Sector Banks in India aimed to look at and compare the Net NPAs and Net NPAs of select Public and Private Sector Banks. (Mistry and Savani 2015) classified Indian private division banks on the premise of their monetary characteristics and analyzed their money related execution. They found that return on resources and interest wage have a negative relationship with operational productivity while, positive relationship with resource utilization and resource estimate.

(Sodhiand Waraich 2016) made a principal investigation with the assistance of key budgetary proportions to recognize the esteem of stocks of the chosen banks and their speculation openings. They found that private and foreign banks are attempting to improve their execution due to expanding completion within the keeping money sector.

(Majumder and Rahman 2016) measured the monetary execution of the fifteen chosen banks in Bangladesh and distinguished the noteworthy distinction in their exhibitions for the period 2009-2013. The proposed that the lower positioning banks ought to take essential steps to make strides their shortcomings.

Research Gap

In nutshell above literature review, it shows up that over the long time, different endeavors have been made by the analysts and academicians to assess the money related position and execution of open division Banks and private division Banks from diverse perspectives. But there's no seminal work made on the investigation of the NPAs of SBI and HDFC from open segment Banks and private segment Banks separately in India. So, the display consider has attempted to highlight this untouched zone.

Scope of the Study

The scope of the study is as given below:

- Banks can improve their financial position or can increase their income from credits with the help of this study.
- This study can be used for comparing the performance of the Bank with other Bank.
- This can also be applicable to know the reasons of increase in NPAs.
- This study also gives light upon impact of NPAs on performance and profit of Banks.

Research Methodology

The present study is based on secondary data analysis. The data has been collected from various web sources like annual reports of respective Banks, information bulletins and journals. The data collected were analyzed with the help of statistical tools like Ratio analysis, and trend analysis. Tables are used to represent the consolidated data. Graphical representation is also used for better comprehension & presentation

Here, NPA is the independent variable and net profit is the dependent variable. So we see if due to any changes in the net NPA, the net profits change or not, if yes, whether positively or negatively.

Data Analysis and Interpretation

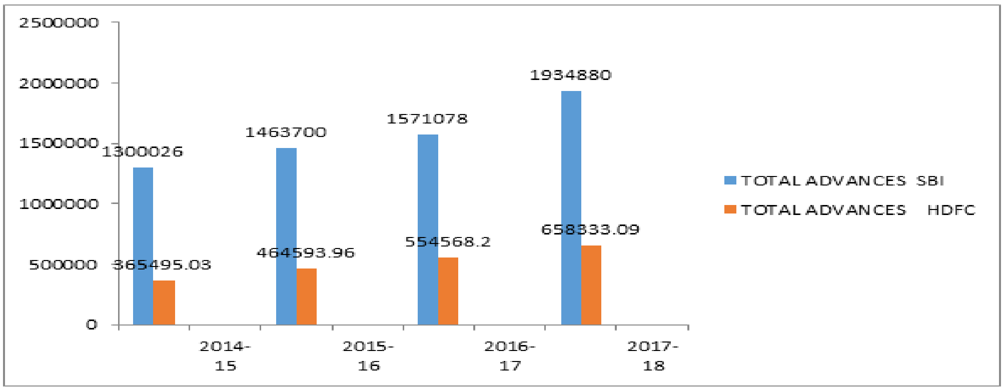
In the below section, various parameters related to NPA are compared and analyzed.

Firstly, the total advances, net profits, gross NPA and net NPAs have been compared for both the Banks.

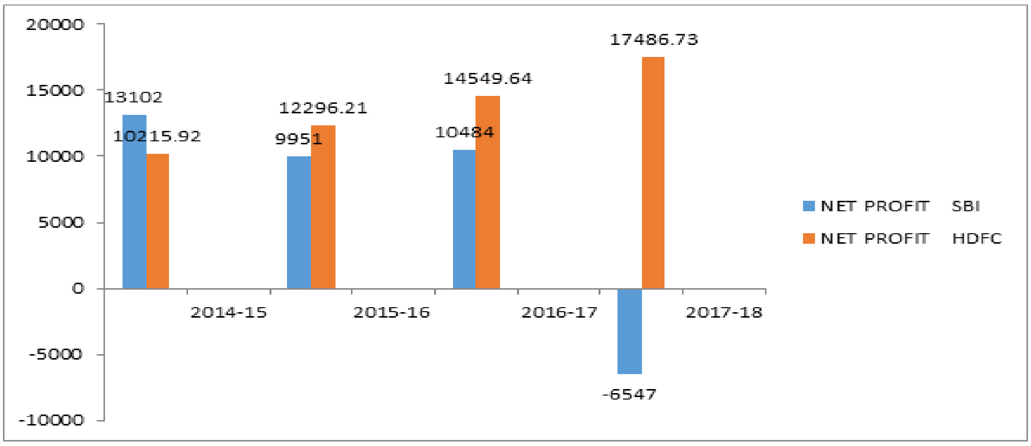
YEAR	TOTAL ADVANCES		NET PROFIT		GROSS NPA		NET NPA	
	SBI	HDFC	SBI	HDFC	SBI	HDFC	SBI	HDFC
2014-15	1300026	365495.03	13102	10215.92	56725.34	3438.38	27590.58	896.28
2015-16	1463700	464593.96	9951	12296.21	98172.80	4392.83	55807.02	1320.37
2016-17	1571078	554568.20	10484	14549.64	112342.99	5885.66	58277.38	1843.99
2017-18	1934880	658333.09	-6547	17486.73	223427.46	8606.97	110854.70	2601.02

https://www.moneycontrol.com/financials/hdfcBank/balance-sheetVI/HDF01#HDF01

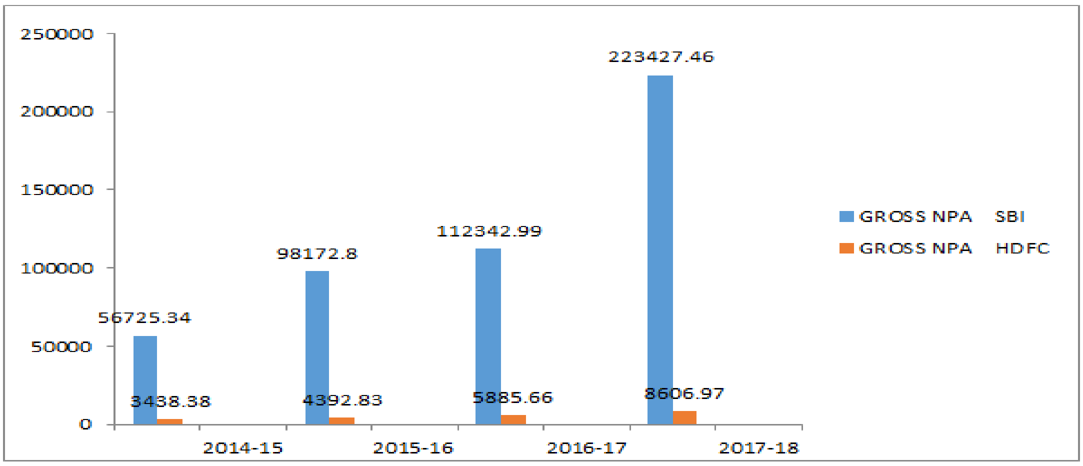
Total Advances



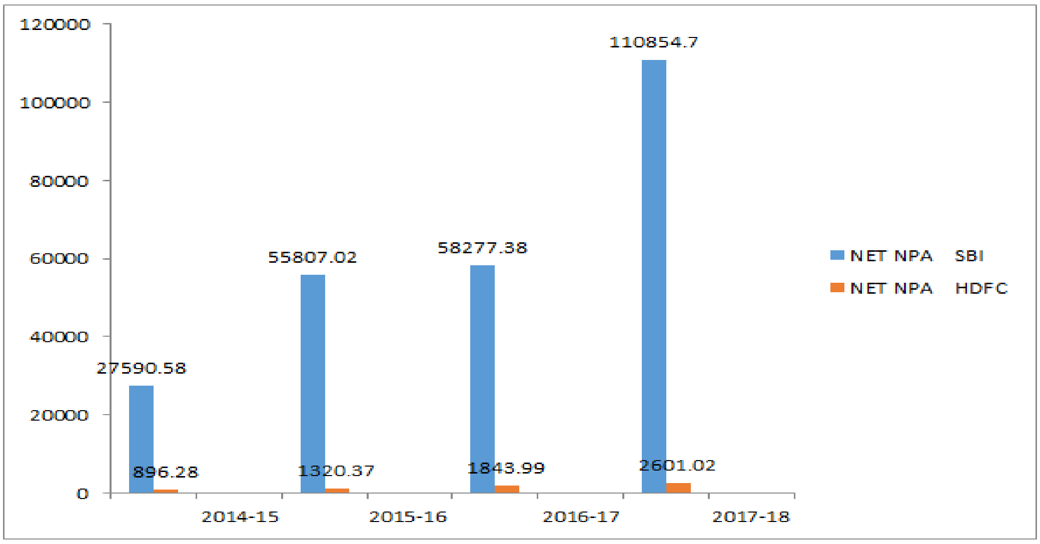
Net Profit



Gross NPA



Net NPA



Secondly, the examination of the NPA trends for both the Banks for the last 4 years has been done.

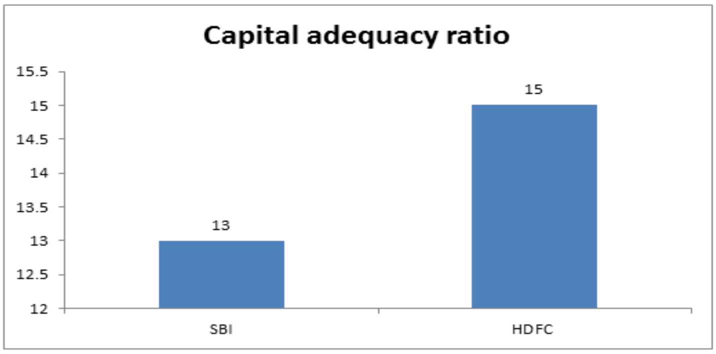
YEAR	PERCENTAGE OF GROSS NPA	
	SBI %	HDFC %
2014-15	4.25	1.30
2015-16	6.5	1.05
2016-17	9.11	0.94
2017-18	10.91	0.90

****https://www.moneycontrol.com/financials/hdfcBank/balance-sheetVI/HDF01#HDF01***

Capital Adequacy Ratio:

Capital Adequacy Ratio can be defined as ratio of the capital of the Bank, to its assets, which are weighted/adjusted according to risk attached to them i.e.

Name of the Bank	Capital adequacy ratio
State Bank of India	13
HDFC Bank	15



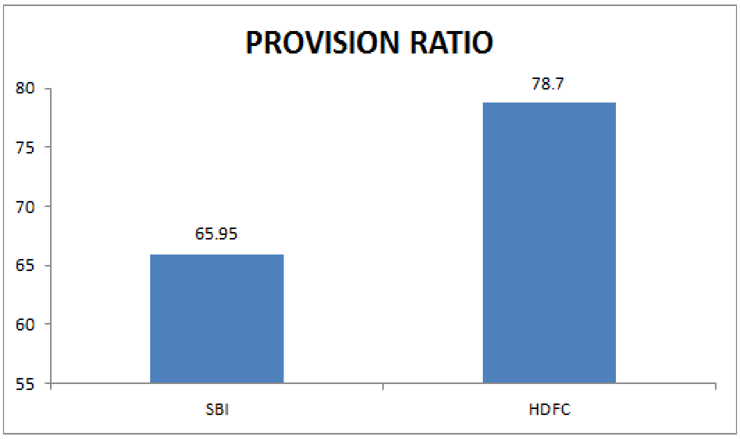
Interpretation:

Each Bank needs to create the capital Reserve to compensate the Non-Performing Assets. Here, HDFC Bank has shown Better capital adequacy ratio with 15% as compare to SBI with 13%.So, we can say that HDFC Bank has much power than SBI to compensate for NPAs.

Provision Ratio:

Provisions are to be made for to keep safety against the NPA, & it directly affect on the gross profit of the Banks.

NAME OF BANK	PROVISION RATIO
SBI	65.95
HDFC	78.7



Interpretation:

This Ratio indicates the degree of safety measures adopted by the Banks. It has direct bearing on the profitability, The highest provision ratio is showed by

HDFC Bank with 78.7 % as compared to State Bank of India with 65.95 %.

Reasons for an Assets Becoming NPA: -

There are number of reasons for an Assets becoming an NPA for Banks are-

- Funds borrowed for a particular purpose but not use for the said purpose.
- Project not completed in time.
- Poor recovery of receivables.
- One very key reason behind the rising NPA is the unperturbed offering norms especially for business honchos when their financial status and credit rating is not scrutinized accurately.
- Public Sector Banks provide most of the credit to industries and it is this part of the credit spreading that forms a great lump of NPA.
- In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.
- Public sector lending and extending loans in agriculture sector has a substantial contribution to the rising NPAs of the Banking industry.
- Diversion of funds for expansion\modernization\setting up new projects\ helping or promoting sister concerns.
- Willful defaults, siphoning of funds, fraud, management disputes, misappropriation etc.
- Deficiencies on the part of the Banks viz. in credit appraisal, monitoring and follow-ups, delaying settlement of payments\ subsidiaries by government bodies etc.,
- Shortage of raw material, raw material\input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.
- Failures, non-payment over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.

Finding

The following findings were drawn from the above data analysis-

- SBI Bank shows high NPAs Ratio as compare to HDFC Bank.
- High NPAs Ratio shows low credit portfolio of SBI Bank.
- In analysis HDFC low risk profile as compare to SBI in terms of NPAs.
- Study also indicates that major NPA increases because of govt. recommended priority sectors.
- HDFC have better capital adequacy ratio than SBI.
- The total advances have shown an upwards trend for both SBI and HDFC Bank
- Net profits for SBI have been fluctuating over the years whereas in case of HDFC Bank. it has largely been consistent to around 10,000 crore.
- In the case of % Gross NPA, performance of Private sector Bank- HDFC is doing better as compared to Public sector Bank –SBI Bank
- In case of % net NPA also, performance of HDFC is observed to be improving over the years and hence creation of less non- performing assets as compared to SBI Bank Percentage net NPA for SBI Bank is observed to be continuously rising.

Conclusion

The present study concludes that non-performing assets is a biggest challenge faced by both HDFC Bank and State Bank of India as it leads to downfall in liquidity balance of the Banks and creates bad debts on them. Profitability is being affected due to the fluctuations in NPA levels over the years. On comparing the two Banks based on the effect on its profitability, SBI has higher NPAs as compared to HDFC Bank. Because of its public nature. Since SBI is a public sector Bank, it is more vulnerable to give up on the returns of the loans extended to the general public. One other reason for high NPAs can be a sharp rise in the provisioning of the bad loans. Besides rising NPA, SBI has not managed its profits consistent, which depicts that the overall management of the resources of the Bank is not better. On the other hand, the net NPAs for HDFC bank are continuously decreasing since 2014 so,as compared to SBI they are in a much better condition. 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. The NPAs means those assets which are categorized as bad assets which are not probably be reverted back to the Banks by the mortgagors. If the precise management of the Non performing assets is not acknowledged it would hinder the trade of the Banks. The Non-performing assets would abolish the recent profit, interest revenue due to large provisions of the Non-performing assets, and would upset the smooth working of the reutilizing of the funds.

To conclude this study we can say about this report, that

- SBI Bank shows very much high NPA ratios as compare to HDFC.
- NPAs represent high level of risk & low level of credit appraisal.
- There are some certain guidelines made by RBI for NPAs which are adopted by Banks.

- HDFC is better in all terms than SBI.

Suggestions

- The Banker should take utmost care by ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully, he should be a person of high integrity, credibility and good character.
- The Banks, instead of providing loans to small farmers, should make provisions to grant them insurance policies for crop protection and income security.
- Banker should examine the balance sheet which shows the true picture of business will be revealed on analysis of profit/loss a/c and balance sheet. While extending loans, Banks should examine the purpose of the loan.
- The problem should be identified very early so that companies can try their best to stop an asset or A/C becoming NPA and Bank should try their best to recover NPAs.
- Banks should evaluate the SWOT analysis of the borrowing companies i.e. how they would face the environmental threats and opportunities with the use of their strength and weakness, and what will be their possible future growth in concerned to financial and operational performance.
- Each Bank should have its own independent credit rating agency which should evaluate the financial capacity of the borrower before than credit facility.

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