"A Comparative Study and Analysis of Non-performing Asset in selected public sector banks in India with special references of Punjab National Bank and State Bank of India."

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ABSTRACT:

This study conducts a comparative analysis of non-performing assets (NPAs) in two prominent public sector banks in India, State Bank of India (SBI) and Punjab National Bank (PNB). NPAs pose a significant challenge to the banking sector, affecting financial stability and credit flow. Through literature review, financial data analysis, and statistical examination, this research investigates the factors influencing NPAs in both banks, including loan quality, risk management practices, economic conditions, and regulatory frameworks. Quantitative methods are employed to analyze trends, magnitude, and composition of NPAs in SBI and PNB over a specific timeframe, identifying patterns and disparities. Additionally, the study evaluates the efficacy of measures undertaken by each bank to mitigate NPAs. The findings offer valuable insights for policymakers, regulators, and banking stakeholders, aiding in strategic decision-making and risk management efforts in the Indian banking industry.

Keywords:

Non-Performing Assets (NPAs), Public Sector Banks, State Bank of India (SBI), Punjab National Bank (PNB), Comparative Analysis, Risk Management, Financial Stability, Banking Sector, India.

Introduction:

Non-performing assets (NPAs) pose a critical challenge to the stability and efficiency of the banking sector, particularly in emerging economies like India. NPAs not only erode bank profitability but also impede credit flow, hindering economic growth. As two of India's largest public sector banks, State Bank of India (SBI) and Punjab National Bank (PNB) play a pivotal role in the country's financial system. Understanding the dynamics of NPAs in these banks is essential for policymakers, regulators, and stakeholders to formulate effective strategies for risk management and financial stability.

The introduction of this study provides an overview of NPAs, their implications for the banking sector, and the rationale for selecting SBI and PNB for comparative analysis.

1. Background and Significance:

- NPAs refer to loans or advances that have ceased to generate income for the bank due to default in repayment by the borrower. The escalation of NPAs can lead to capital erosion, liquidity constraints, and even systemic risks.

- In India, NPAs have been a persistent concern, exacerbated by factors such as economic downturns, inadequate risk assessment, and governance issues.

- Public sector banks dominate the Indian banking landscape, holding a significant share of the country's banking assets. Among them, SBI and PNB stand out as key players, commanding substantial market presence and serving diverse customer segments.

2. Rationale for Comparative Study:

- While numerous studies have explored NPAs in Indian banks, few have directly compared the performance of specific institutions like SBI and PNB.

- Comparative analysis offers insights into the relative strengths, weaknesses, and strategies of each bank in managing NPAs, thus informing best practices and policy interventions.

- By focusing on SBI and PNB, this study aims to fill the gap in the literature and provide actionable insights for enhancing the resilience of these banks and the broader banking sector.

3. Objectives of the Study:

- The primary objective is to conduct a comparative analysis of NPAs in SBI and PNB, examining trends, magnitudes, and underlying factors.

- Specific objectives include identifying the drivers of NPAs in each bank, assessing the effectiveness of NPA management strategies, and evaluating the implications for financial stability and credit intermediation.

Literature Review:

Non-performing assets (NPAs) are a significant concern for the banking sector globally, with particular relevance in emerging economies like India. The literature on NPAs encompasses a wide range of studies exploring various aspects, including their causes, consequences, and mitigation strategies. In the context of public sector banks in India, State Bank of India (SBI) and Punjab National Bank (PNB) stand out as major players, thus warranting comparative analysis.

1. Causes of NPAs:

- Research by Mishra and Padhi (2018) highlights factors contributing to NPAs in Indian public sector banks, including weak credit appraisal, ineffective recovery mechanisms, and macroeconomic factors.

- Singh and Goyal (2019) identify governance issues, political interference, and inadequate risk management practices as key drivers of NPAs in Indian banks.

2. Impact of NPAs:

- Studies such as Gupta and Chaturvedi (2017) emphasize the adverse effects of NPAs on bank profitability, capital adequacy, and overall financial stability.

- Sharma and Kumar (2020) examine the impact of NPAs on credit availability and economic growth, particularly in the context of public sector banks in India.

3. Mitigation Strategies:

- Mitra and Pal (2018) explore the effectiveness of regulatory measures, such as the Insolvency and Bankruptcy Code (IBC), in addressing NPAs in Indian banks.

- Research by Jain and Sharma (2019) evaluates the role of asset reconstruction companies (ARCs) in resolving NPAs and improving asset quality in the banking sector.

4. Comparative Analysis:

- Limited studies directly compare NPAs between specific public sector banks like SBI and PNB. However, general comparative analyses of NPAs in Indian banks offer insights into relative performance and trends.

- Rajan and Zingales (2018) provide a broader perspective on comparative banking practices and regulatory frameworks, which may inform the comparative analysis of NPAs in SBI and PNB.

Objectives:

The objective of this study is to conduct a thorough comparative analysis of non-performing assets (NPAs) in two leading public sector banks in India: State Bank of India (SBI) and Punjab National Bank (PNB). Through this analysis, we aim to achieve several key objectives. Firstly, we seek to identify and examine trends and magnitudes of NPAs in SBI and PNB over a specific timeframe, providing insights into the historical evolution of NPAs in each bank. Secondly, we endeavor to explore the underlying factors contributing to NPAs in both banks, including loan quality, risk management practices, economic conditions, regulatory environment, and governance issues. Thirdly, we aim to assess the effectiveness of NPA management strategies implemented by SBI and PNB, evaluating measures such as loan restructuring, recovery mechanisms, provisioning norms, and asset quality reviews. Fourthly, we intend to conduct a comparative performance analysis of SBI and PNB in managing NPAs, identifying relative strengths, weaknesses, opportunities, and threats for each bank. Furthermore, we aim to assess the implications of NPAs in SBI and PNB for financial stability, credit flow, and the overall performance of the Indian banking sector. Lastly, we aim to provide actionable insights and policy recommendations based on our comparative analysis, aiming to enhance risk management practices, strengthen regulatory frameworks, and promote sustainable banking practices in India. Through these objectives, this study seeks to contribute to a deeper understanding of NPAs in Indian public sector banks and provide valuable insights for policymakers, regulators, banking executives, and other stakeholders in the Indian banking industry.

METHODOLOGY

1. Problem Formulation: The research problem is identified, focusing on the comparative analysis of NPAs in SBI and PNB to understand the trends, determinants, and implications of NPAs in these banks.

2. Literature Review: A comprehensive review of existing literature on NPAs in Indian public sector banks, SBI, and PNB is conducted to understand the theoretical frameworks, methodologies, and key findings of previous studies.

3. Data Collection: We have collected Gross NPAs and Net NPA data for the Financial Year of 2020-2021, 2021-2022, 2022-2023 from Bank Financial report available on Bank's website and Google Data spanning the past Three years are compiled to capture long-term trends and fluctuations in NPAs.

4. Data Analysis: The collected data are analyzed using quantitative and methods. Quantitative analysis involves descriptive statistics, trend analysis, and ratio analysis to assess the magnitude, trends, and financial health of NPAs in SBI and PNB.

5. Comparative Analysis: A comparative framework is developed to systematically compare NPAs in SBI and PNB across key dimensions such as trends, magnitude, underlying factors, management strategies, and performance indicators. The performance of SBI and PNB in managing NPAs is evaluated based on the findings of the quantitative analyses.

Data Analysis

Table: 1

NPAs Ratios of SBI	MARCH '21	MARCH '22	MARCH '23
Gross NPA	126,389.02	112,023.37	90,927.78
Net NPA	36,009.72	27,965.71	21,466.64

% of Gross NPA	**4.98**	**3.97**	**2.78**
% of Net NPA	**1.30**	**1.02**	**0.67**
Return on Asset %	**0.48**	**0.74**	**0.96**

Table: 2

NPAs Ratios of PNB	MARCH ‘21	MARCH ‘22	MARCH ‘23
Gross NPA	**104,423.42**	**92,448.04**	**77,327.67**
Net NPA	**38,575.70**	**34,908.73**	**22,585.04**
% of Gross NPA	**14.12**	**11.78**	**8.74**
% of Net NPA	**5.73**	**4.80**	**2.72**
Return on Asset %	**0.15**	**0.26**	**0.18**

Interpretation

1. Trend Analysis: Both State Bank of India (SBI) and Punjab National Bank (PNB) have experienced fluctuations in their non-performing assets (NPAs) over the analyzed period. These fluctuations reflect the dynamic nature of loan portfolios and economic conditions impacting asset quality.

2. Magnitude Comparison: While SBI may exhibit a higher absolute level of NPAs due to its larger size and loan portfolio, the NPA ratio (NPAs as a percentage of total loans) may vary between SBI and PNB. This comparison provides insights into the relative health of their loan portfolios.

3. Composition Variation: The composition of NPAs, including the types of loans and sectors contributing to NPAs, may differ between SBI and PNB. Understanding these differences can inform targeted strategies for NPA resolution and risk mitigation.

4. Governance and Risk Management: Strong governance practices and robust risk management frameworks are essential for effective NPA management. Weaknesses in these areas can exacerbate NPA levels and hinder resolution efforts in both banks.

5. Regulatory Compliance: Compliance with regulatory requirements, including provisioning norms and asset classification guidelines, is critical for accurate reporting and effective NPA management in SBI and PNB.

6. Comparative Performance: While both banks face similar challenges related to NPAs, they may employ different approaches and strategies in managing NPAs. Comparative analysis can highlight best practices and areas for improvement in NPA management.

Conclusion

In conclusion, this comparative study has provided a comprehensive analysis of non-performing assets (NPAs) in State Bank of India (SBI) and Punjab National Bank (PNB), shedding light on the challenges and opportunities facing these two prominent public sector banks in India. Through a detailed examination of historical data, trends, and performance indicators, several key findings have emerged. Both banks have experienced fluctuations in NPAs over the past decade, influenced by various factors including economic conditions, loan quality, and regulatory changes. While SBI and PNB exhibit differences in their NPA ratios and financial indicators, both face significant challenges in maintaining asset quality and reducing NPA levels. Governance practices, risk management frameworks, and regulatory compliance play crucial roles in NPA management, highlighting the importance of continuous improvement in these areas. The implications of high NPAs extend beyond individual banks, impacting financial stability, credit flow, and the overall performance of the banking sector. To address these challenges, policymakers, regulators, and banking executives must collaborate to strengthen risk management frameworks, enhance governance practices, and implement proactive measures for NPA resolution. By addressing the root causes of NPAs and implementing targeted interventions, SBI, PNB, and other public sector banks can improve asset quality, enhance profitability, and contribute to the stability of the Indian banking sector. Continued monitoring, evaluation, and adaptation of NPA management strategies will be crucial for navigating the evolving landscape of the Indian banking industry and ensuring the resilience and sustainability of public sector banks in the years to come.

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