

## **NPA: A COMPARATIVE STUDY OF PNB AND HDFC BANK**

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### **ABSTRACT**

Bank is always considered as back bone of the financial system of any economy. Financial inclusion is the main need of an economy. Banks and others financial institutions play the vital role in financial inclusion of an economy of country. Today's globalised economies; banks are safe source of finance to individual and corporations. The knowledge of financial performance helps decision makers to predict, compare and evaluate the earning ability of banks and companies. This research study is descriptive and analytical in nature. The data used for this research paper is entirely secondary in nature. In this study, Gross and Net NPA of PNB and HDFC Bank is evaluated and compared. The study shows the NPA of PNB and HDFC. The study shows that the NPA position of HDFC Bank is better than PNB.

***Keywords: Net Profit, NPAs, Gross NPA, Net NPA***

### **Introduction**

Banking system plays a vital role in the economic system of a country by mobilizing the nation's savings and directing them into high investment priorities for better utilization of available resources. Here banks play a fundamental role because they work as a mediator between those who require finance and those who have finance. Schumpeter, the first modern economist considered banks to be the most important of all the financial

intermediaries in the financial system of a country. Profit is the main reason for the continued existence of every commercial organization and profitability depicts the relationship of the absolute amount of profit with various other factors, banks in general have to pay much more attention for balancing profitability and liquidity.

NPA of Indian public sector banks has risen significantly in past five years. In December 2016, Gross NPA of public banks remained Rs 6.46 lakh crore rupees. For public banks, Punjab National Bank has the highest share of bad loans in their advances. State Bank of India, Canara Bank, Oriental Bank of Commerce and Bank of Baroda has less percentage of gross NPA. NPA of public banks is on the rise because banks are recognising loans as bad loans at a slower pace.

As a matter of fact, profitability management is used as one of the accounting tools to improve the organization's performance. Since 1991 Globalization, Liberalization, and Privatization has brought a positive trend in all the industries not excluding the banking sector. But at the same time it also has increased the non performing assets of the banks which affect banks lending, liquidity and profitability in a negative way. But the measures taken under banking reforms by the Government of India and Reserve Bank of India in terms of two Narsimham Committee Reports have relaxed up to a great extent to this surging threat. The concept of asset quality on the books of public sector banks and financial institutions came into being when Reserve Bank of India introduced prudential norms on the recommendations of the Narsimha Committee in the year 1992-93.

## **LITERATURE REVIEW**

Svetlana Tatuskar (2010), he took the sample of five commercial banks (SBI, ICICI, AXIS, HDFC, Bank of India) in India to analysis the financial performance of banks through CAMEL model for the period 2006 to 2010. The paper also compared the performance of these banks with the previous year 2008-09 and ranks them on the basis of the findings got by this model evaluation. The study showed that the performance of the banks for the year ended 2010 had been much better as against their performance during the previous year ended 2009. With the effect of the crisis subsidizing in the global banking sector, the Indian banking sector had shown extraordinary

financial performance even amidst the financial crisis.

M. Dhanabhakya, M. Kavitha (2012) in their study on “Financial Performance of Selected Public Sector Banks in India” explained that the banks have to re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on. In the perspective of this domestic and international development, the banking sector has to chart out a perfect path for the development in its own.

Faisal Abbas, Muhammad Tahir, Mutee-ur-Rahman (2012) in their article on “ A comparison of Financial Performance in Banking Sector: Some Evidence from Pakistani Commercial Banks” concluded that ranking of top five Pakistani commercial Banks based on their total average assets, total operating fixed assets, total average equity and return on respective variable.

Vivek Rajbahadur Singh in his study titled “A Study Of Non Performing Assets Of Commercial Banks And Its Recovery In India” in March 2016, in which he concluded that NPA level of Nationalised banks are very high as compare to foreign banks. The Bank management should increase the speed of recovery process. The government should also make more provisions for Speed settlement of pending cases and should reduce the mandatory lendings to priority sector as it is main problem creating area.

### **Objectives of the Study**

The study is designed:-

- (i) To know about the Gross NPAs of Punjab National Bank and HDFC Bank during the period 2014-15 to 2018-19.
- (ii) To know about the Net NPAs of Punjab National Bank and HDFC Bank during the period 2014-15 to 2018-19.
- (iii) To know about the level of NPAs in the banks under study.

### **Testing of Hypothesis**

In order to test the significance of differences in gross NPA among different bank groups in India, the following hypothesis is tested using ANOVA single factor.

The main hypothesis of the present study is:

**H0: Null Hypothesis:** There is no significant difference in the Gross NPA among PNB and HDFC Bank during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Gross NPA among PNB and HDFC Bank during the study period.

ANOVA						
Source of Variation	SS	d.f.	MS	F	P-value	F-crit
Between Groups	7205380056	1	7205380056	25.00157185	0.001053	5.317655
Within Groups	2305576657	8	288197082			
<b>Total</b>	9510956713	9				

\* Significant at 5 % level

It is clear from the table that there is significant difference in the Gross NPA among PNB and HDFC Bank under study, because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Gross NPA of banks under study.

**H0: Null Hypothesis:** There is no significant difference in the Net NPA among PNB and HDFC Bank during the study period.

**H1: Alternative hypothesis:** There is significant difference in the Net NPA among PNB and HDFC Bank during the study period.

ANOVA						
Source of Variation	SS	d.f.	MS	F	P-value	F-crit
Between Groups	2321568745	1	2321568745	32.43373	0.000457	5.317655
Within Groups	572630792.2	8	71578849.03			
<b>Total</b>	2894199537	9				

\* Significant at 5 % level

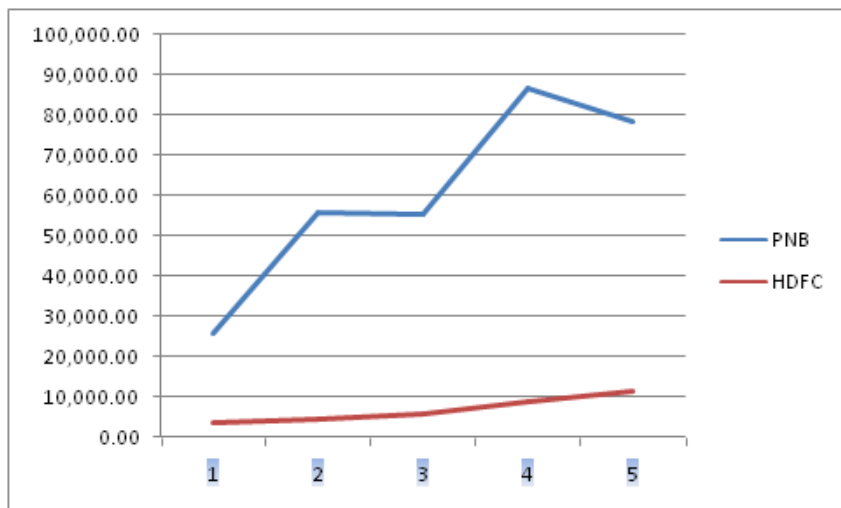
## Proceedings of D.H.E. Haryana approved National Seminar on Entrepreneurship and India: Strategies for Transformation and Growth

It is clear from the table that there is significant difference in the Net NPA among PNB and HDFC Bank under study, because the calculated value of F is higher than the critical value of F. So the null hypothesis is rejected and alternative hypothesis is accepted. Hence, there is significant difference in Net NPA of banks under study.

### Levels of NPA of PNB and HDFC Banks

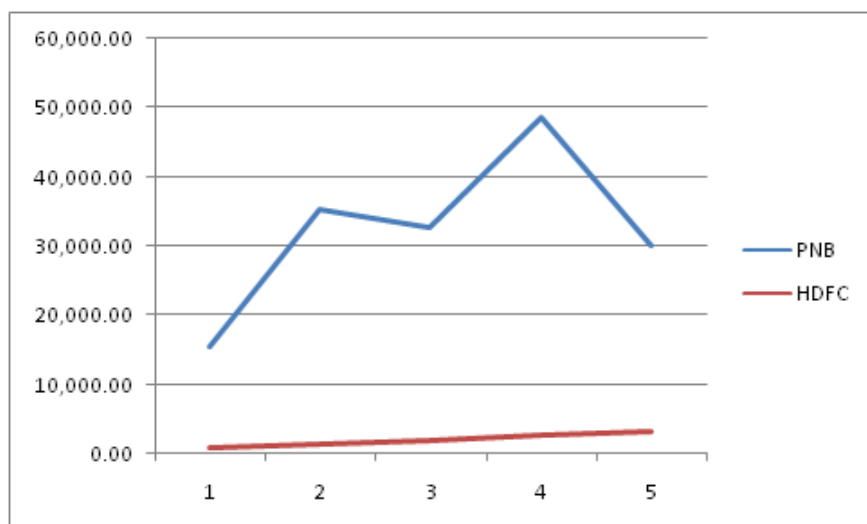
Following is the level of Gross and Net NPA of Punjab National Bank and HDFC Bank for the period under study:-

<b>Punjab National Bank (Rs. In Crores)</b>	<b>Mar-19</b>	<b>Mar-18</b>	<b>Mar-17</b>	<b>Mar-16</b>	<b>Mar-15</b>
Gross NPA	78,472.70	86,620.05	55,370.45	55,818.33	25,694.86
Net NPA	30,037.66	48,684.29	32,702.11	35,422.57	15,396.50
% of Gross NPA	15.5	18.38	12.53	12.9	6.55
% of Net NPA	6.56	11.24	7.81	8.61	4.06



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<b>HDFC Bank (Rs. In Crores)</b>	<b>Mar-19</b>	<b>Mar-18</b>	<b>Mar-17</b>	<b>Mar-16</b>	<b>Mar-15</b>
Gross NPA	11,224.16	8,606.97	5,885.66	4,392.83	3,438.38
Net NPA	3,214.52	2,601.02	1,843.99	1,320.37	896.28
% of Gross NPA	1.36	1.3	1.05	0.94	0.9
% of Net NPA	0.39	0.4	0.33	0.28	0.2



This study shows that level of Gross and Net NPA of PNB is much higher than HDFC Bank. The position of NPA of HDFC Bank is much better than PNB Bank.

**Findings and Conclusion**

From the study, it is revealed that an increased in Gross and Net NPA every year, indicates the deficiencies in the credit appraisal process which is followed by banks. Therefore, to manage NPA, it is necessary that loan proposals should not be judged on the social and economic background of the promoter, but it should be objectively evaluated on the merit basis of the project involved. Addition to NPA shows the efficiency of credit risk management, Reduction to NPA depicts the efficiency of recovery measures,

applied by RBI. To analyze the overall efficiency, Net Addition to NPA and Gross Non Performing Generation Rate may be utilized. At present, many recovery measures like SARFAESI Act are available for recovering NPAs of banks. Regulatory norms normally delay the time taken for recovery which ultimately affects the realizable value of NPAs. There should be efforts from the regulatory authorities to improve the recovery management process, so that the NPA accounts can be realized without much erosion in its value. This study shows that level of Gross and Net NPA of PNB is much higher than HDFC Bank. The position of NPA of HDFC Bank is much better than PNB Bank.

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