A COMPARATIVE STUDY ON THE NON-PERFORMING ASSETS MANAGEMENT OF PNB AND HDFC BANK

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Abstract

In India's economy, private and state banks play a critical role. As the first kind of banking, they are responsible for a large number of transactions dispersed over a wide area. The banking sector is crucial to the development of India's economy. These days, non-performing assets (NPAs) constitute a major issue for banks. Financial institutions are particularly concerned about non-performing assets (NPAs). Nonperforming assets are hurting the bank's bottom line (NPAs). More provisioning was required because of the rise in nonperforming assets, and this had a negative effect on profitability. This research examines PNB and HDFC Bank's non-performing assets management using secondary data collecting. Non-performing assets (NPAs) are on the rise in banks, and this paper investigates the reasons behind this trend and makes some suggestions.

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

INTRODUCTION

It is very necessary to have a robust banking sector in order to have a healthy economy. One of the most fundamental tasks that banks are responsible for is taking deposits and granting loans. It involves allocating financial resources so that the nation's expansion and improvement may take place. The failure of the banking industry has implications for other sectors of the economy as well. Nonperforming assets are a significant cause for concern for all banks in today's environment.

An elevated level of nonperforming assets, often known as NPAs, may have a negative impact not just on a bank's earnings but also on its net worth and asset quality. When principle and interest are due on an asset but are not collected, the quality of the asset is referred to be non-performing (NPAs).

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STRUCTURAL CONCEPTUALIZATION OF THE NPA

Non-performing assets, often known as NPAs, are assets that have not met the provisioning criteria for their interest or principal payments in a timely manner.

The debt is considered to be in default when either the principle or interest payments are paid late or not at all. When the lender breaches the conditions of the loan agreement and the borrower seems unable to meet or fulfil his responsibilities, this is regarded to be a case of the borrower being in default on the loan.Nonperforming assets (NPAs) may be broken down into two categories: gross and net NPAs.

The term "gross non-performing assets" (NPAs) refers to advances that are thought to be unrecoverable, for which a bank has made a provision, but which are nonetheless kept in the bank's accounting record. This word comes from the acronym NPA, which stands for "non-performing assets." This provision was made because the bank believes that the loans would not be recouped. To put it another way, it is the total value of all non-standard assets, which includes assets that are questionable, assets that have suffered losses, and assets that do not meet standard requirements. The amount after the bank has deducted the provision for nonperforming assets to arrive at the net nonperforming asset balance.

Net nonperforming assets (NPA) reveal banks' true burden. According to central bank guidelines, Indian banks must make large provisions for NPAs. This is because recovering and writing off loans in India takes time, and bank balance sheets include a lot of nonperforming assets (NPAs). This is why.

REASONS OF NPAS

- Consumers not being careful and choosing activities that aren't right for them.
- Weak credit assessment techniques or systems.
- Illness in the workplace.
- Poor management of borrowers.
- Poor loan management and supervision.
- Insufficient attention or follow-up from financial institutions such as banks.
- A sluggish or stalled economy overall.

GOALS OF THE STUDY

- To investigate the changes in NPA that have occurred at PNB and HDFC over the last several years.
- The goal of this research is to determine the extent to which NPA influences performance.
- To evaluate whether financial institution is superior to others in the management of its nonperforming assets (NPAs).
- to have a better understanding of the factors that contribute to NPAs.

REVIEW OF THE LITERATURE

Research on the management of non-performing assets has led academics to the conclusion that financial institutions should explore the fundamental motives that borrowers have for requiring loans, according to Chatterjee, Mukherjee, and Das (2012). In addition to verifying the proper identification of the guarantor and reviewing any relevant documentation, the bank should also do a comprehensive analysis of the wealth of the guarantor providing the guarantee. That is very thoroughly documented in preparation for the loan, as well as the standards and regulations."

"The study indicates that the situation of NPAs in India is improving, as stated by Dr. Poonam Mahajan (2014)," In spite of the fact that there has been a general trend toward NPAs going down during the course of the study period, the proportion of non-performing assets held by public sector banks continues to be much higher than that of other institutions. When compared to the top management of public sector banks, those in the private and international banking sectors come out on top in terms of professionalism, core competence, and specialty expertise. As a result, this is the reason why they are more capable of creating tactics for collecting cash owed to them by borrowers (both individuals and institutions)."

According to Chaudhary and Sharma (2011)'s research, Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study, in order to cut down on non-performing loans (NPA), it is vital to develop processes that are both appropriate and stringent. It is recommended that an effective and efficient MIS be developed. When it comes to preventing advances from developing into non-performing assets, bank workers who are authorised to provide them need to be informed on the necessary documents, proficient in technology, and motivated to do so. Public sector banks need to focus on their operations and nonperforming assets (NPAs) if they want to compete with commercial banks. When it comes to selecting loans or projects and analysing financial records, banks need to use extreme caution.

" The findings of his investigation," Bhatia (2007), The book "Nonperforming Assets of Indian Public, Private, and Foreign Sector Banks: An Empirical Assessment" investigates the NPAs that are held by Indian banks that are in the public sector, the private sector, and the foreign sector accordingly. In order to determine how well a bank is doing in general and to evaluate the bank's overall financial health, an examination of the bank's nonperforming assets, which is also frequently referred to as NPAs, is performed. This evaluation is done. Both the expansion of the banking system and the entire system's ability to maintain its financial stability are influenced by the total amount of loans that are deemed to be nonperforming (NPAs). An inquiry of the myriad of factors that lead to bank loans being unrepaid is presented here in this article.

The purpose of this study, as stated in Mistry and Savani's 2015 article, was to investigate and classify Indian private division banks according to the monetary characteristics that set them apart from one another, as well as to evaluate how effectively these banks manage monetary-related operations. They concluded that there is a positive link between resource utilisation and resource estimate, but that there is a negative association between return on resources and operational productivity.

SCOPE OF THE STUDY

The results of this research may help banks better their current financial situations or increase the amount of money they bring in.

- One possible use for this study is to evaluate the performance of the bank.
- This study has the potential to also reveal the factors that are causing the increase in NPAs.
- This study also gives light on how nonperforming assets (NPAs) influence the profitability of banks.

RESEARCH METHODOLOGY

The primary and secondary data that have been examined in the past will serve as the basis for the current inquiry. The information was collected from a wide variety of web sources in addition to yearly reports supplied by a variety of different financial organisations. Statistical approaches and analysis of trends were used in order to carry out the task of conducting an analysis of the data that was acquired. Tables are often used to make the presentation of data in an official fashion. In addition, a graphic depiction is provided for your viewing pleasure in order to help you better understand the content.

DATA ANALYSIS AND INTERPRETATION

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

Year	Total Advances		Net Profit		Gross NPA		Net NPA	
	PNB	HDFC	PNB	HDFC	PNB	HDFC	PNB	HDFC
2016-17	419493	554568	1324	14550	55370	5886	32702	1844
2017-18	433734	658333	-12283	17487	86620	8607	48684	2601
2018-19	458249	819401	-9975	21078	78472	11224	30037	3214
2019-20	471287	993702	336	26257	73478	12650	27218	3542
2020-21	674230	1132836	2021	31116	104423	15086	38575	4554

Chart No.1 Gross Total Advances

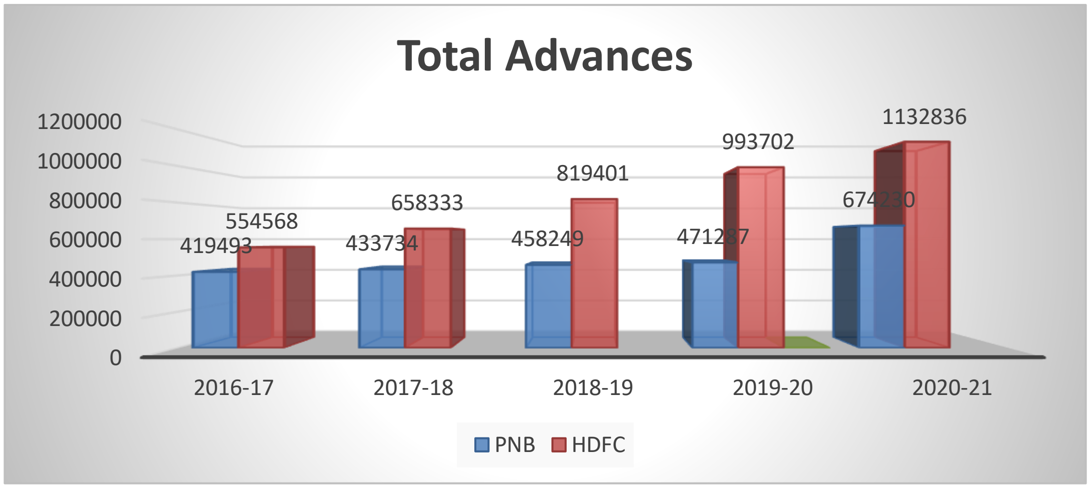

Chart No.2 Net Profit

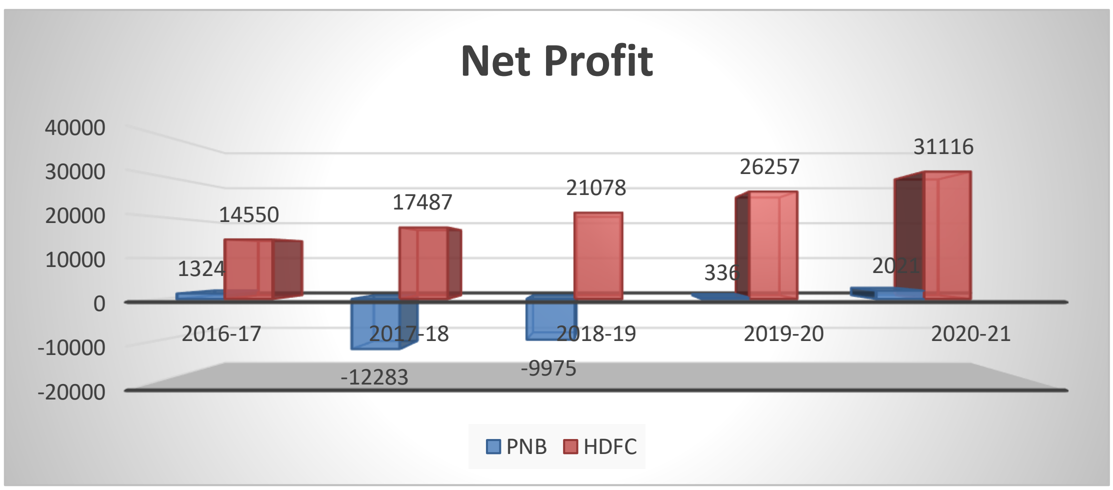

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Chart No.3 Gross NPA

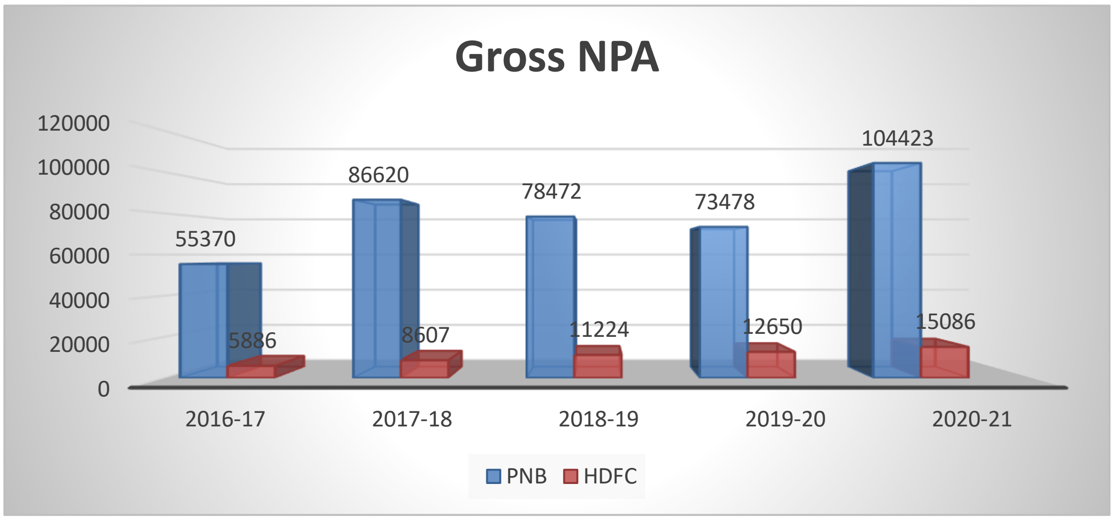
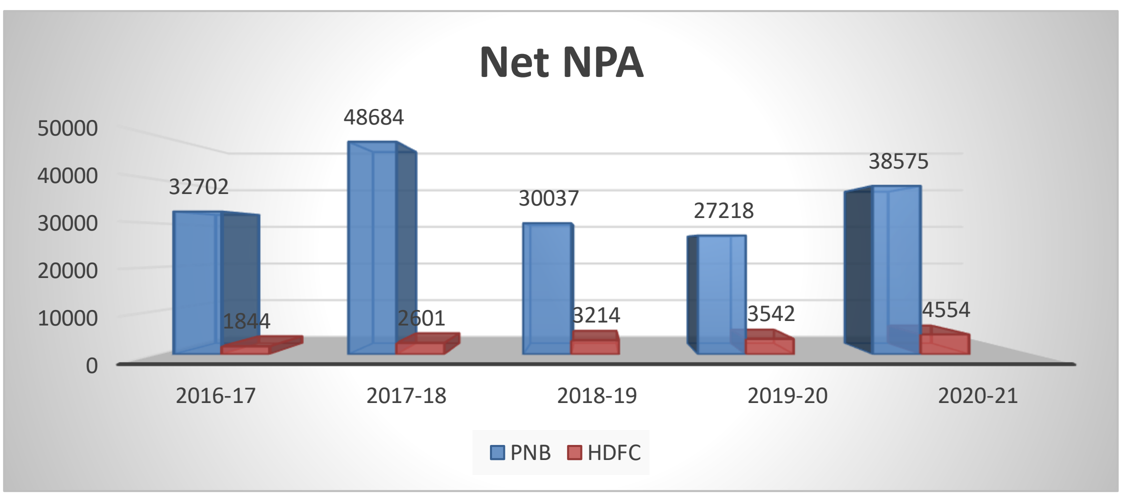


Chart No.4 Net NPA



It is evident from the following statistics that Net Profit in HDFC Banks is steadily growing, from 14550 in 2016-17 to 31116 in 2020-21, whereas Profit in PNB is not constant, varying from 1324 in 2016-17 to loss 12283 in 2017-18. This discrepancy in profitability can be attributed to the fact that HDFC Banks are more focused on investing their money in technological advancements. This discrepancy can be attributed to the fact that HDFC Banks have been more successful in investing their capital. The ratio of non-performing assets held by PNB is higher than that of HDFC Bank, both in terms of gross and net NPA. As a consequence of this, we are able to draw the conclusion that HDFC Bank's profitability and its handling of NPAs are better than those of PNB Bank.

When compared to PNB Bank, the capital adequacy ratio of HDFC Bank is much higher. This further supports the notion that HDFC Bank's management is of a higher calibre.

The non-performing assets (NPAs) of PNB Bank need to be a concern for the bank because they have a negative impact on profitability. This is evident from the fact that the bank's gross NPA and net NPA nearly doubled from the previous year's figures, while the bank's net profit turned out to be negative.

REASONS OF NPAS FINDING

The data analysis that was done above led to the development of the following findings:

Why PNB Bank has a larger percentage of non-performing assets compared to HDFC Bank, and the analysis reveals that large NPA increases are caused by priority sectors that are suggested by the government.

- The ratio of capital adequacy at PNB is lower than that at HDFC Bank.
- There has been a general upward trend in advances granted by both of the banks.
- Over the course of the last many years, the net profits of PNB have varied, whilst those of HDFC Banks have remained reasonably stable at roughly 10,000 crores.

The performance of the private sector bank HDFC is much better than that of the public sector bank PNB Bank in terms of the percentage of gross nonperforming assets. HDFC bank also performs significantly better than PNB bank in terms of the percentage of net nonperforming assets.

SUGGESTIONS

- Before granting a loan, the banker needs to exercise extreme caution and make certain that the customer is a person of high integrity, reliability, and good character; that the company or business for which the loan is requested is healthy; and that the customer is capable of successfully conducting business. In addition, the banker needs to ensure that the company or business for which the loan is requested has a positive financial outlook.
- A banker is obligated to examine the balance sheet, which, when combined with an evaluation of the company's profit and loss as well as an examination of the balance sheet, depicts an accurate picture of the business. Before granting the loan, financial institutions have to determine its desired purpose and the actual demand for loans.
- The problem need to be identified from the very beginning or very early on so that businesses may take all of the necessary precautions to stop an asset from becoming a nonperforming asset (NPA), and financial institutions can take all of the necessary precautions to recover NPAs.
- Before extending credit, each financial institution need to have its own in-house credit scoring and training agency, which would be responsible for educating employees and determining whether or not a customer can afford credit.

CONCLUSION

According to the results of the study, the most important obstacle that HDFC Bank and Panjab National Bank must overcome in the current environment is the one provided by their non-performing assets. This is the case regardless of the fact that the two financial institutions are competitors. This is due to the fact that these assets bring about a reduction in the liquidity balance of the banks and create bad debts for those institutions, both of which bring about the outcomes that have been discussed above. Each of these financial institutions has seen a decline in profitability as a direct result of the progressive increase in the number of loans that have been categorised as being non-performing over the course of the previous few years. When the data from the two financial institutions were compared, it was found that PNB had a greater amount of non-performing assets (NPAs) than HDFC Bank had. This conclusion was reached based on the comparison of the two banks. The fact that PNB has not been able to maintain its profitability is more proof that the bank's overall management is not getting any better. This comes as a direct result of the bank's non-performing assets to total assets ratio continuing to rise in recent months. On the other hand, ever since the fiscal year 2017–2018, HDFC bank has seen a constant drop in the total quantity of net nonperforming assets that it has. This trend began in the bank's second year of operations. They are in a far better situation than PNB, as can be seen by comparing the two companies. The HDFC Bank has continued to demonstrate strong performance throughout the course of the many years that have passed since it was founded. On the other side, the challenge that the PNB Bank is facing is that the income generated by its assets is not sufficient to meet the costs that the bank incurs. It would be detrimental to the ability of banks to do business if the management of banks' non-performing assets was not recognised or given the necessary amount of attention.

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