

# Analysis of NPA in Priority Sector and Non Sector Lending of Public Sector and Private Sector Bank

Hashim. M<sup>1</sup>, Dr. S. Sajejev<sup>2</sup>

<sup>1</sup>Assistant Professor, Department of Commerce, Mannaniya College of Arts and Science, Pangode, Thiruvananthapuram, Kerala

<sup>2</sup>Professor, Institute of Management in Government, Thiruvananthapuram, Kerala

Email address: <sup>1</sup>hashim.m874(at)gmail.com, <sup>2</sup>sajeevsdr(at)gmail.com

**Abstract**— Banks place excessive position on the economic development and social upliftment of the country and the development of the agricultural sector and small enterprises. The lending policy of banks is considered sector wise in two. One is Priority sector lending (PSL) and the other is Non Priority Sector Lending (NPSL). The Non-Performing Asset (NPA) is one of the most detrimental to bank lending. This research study how much NPA is incurred on loans given by public and private sector banks.

**Keywords**— Priority sector lending (PSL), Non Priority Sector Lending (NPSL), Non-Performing Asset (NPA).

## I. INTRODUCTION

Priority Sector lending is a target based loan scheme implemented by the RBI for the upliftment and improvement of the living standards of the backward classes in the country. (Goyal et al., 2016). The loan scheme is mainly focused to Agriculture, Micro and Small Enterprises, Export credit, social infrastructure, Renewable Energy, Education Loans, Housing Loans and Others, PSL (Priority Sector Lending) target is 40% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher. (Master Directions – Priority Sector Lending (PSL) – Targets and Classification, 2021). Sector wise lending is mainly divided into two, one is Priority sector lending and the other is Non Priority Sector lending. (Desai, 2019). Non Priority Sector lending refers to loans that do not fall within the scope of the Priority Sector. The RBI does not specify a specific loan target for non-priority sector lending (Ranjan Mohapatra & Gaur, 2019). NPA refers to loan arrears due to non-repayment of loans made by banks and delays in payment after a certain period. (Boyd and De Nicolo, 2005). The NPA is the biggest problem facing banks. It has adversely affected both the Priority Sector and the Non priority Sector. (Rinaldi and Sanchis-Arellano, 2006). This study moreover examines the extent to which NPAs are concerning in priority sector lending and non-priority sector lending.

## II. REVIEW OF LITERATURE

Ahmed (2010) in an article on “Priority Sector Lending by Commercial Banks in India: A Case of Barak Valley” revealed that that significant aim of need area progresses was to have a legitimate and satisfactory help to denied area of the economy which was disregarded and didn't get legitimate help. This was further additionally benefited for the accomplishment of financial urgencies of government like the development of minuscule and limited scope enterprises, horticulture, and

progress of in the reverse region and so forth Little and Micro venture was in every case shy of credit and request and further banks couldn't accomplish the given objective of PSL. Creators have considered auxiliary information from the Central Bank and Lead bank office of the review region. Creators have tried the degree of acknowledging channelization for connection grid investigation while straight development rate and build development rate examination have been utilized to survey the development of bank credit nearby under study. The study reasoned that negligence of horticulture, contracting portion of genuine need area, falling number of records across the various classifications of need area, advance recuperation component and so on are a portion of the significant issues which need quick consideration of the arrangement producers.

Seema and Jyoti (2015) contributed an article on “A study on priority sector lending and its targets in India” with a goal to comprehend the method engaged with need area propels for borrowers for chose banks and to gain proficiency with the patterns of need area progresses by business banks for different classes and subclasses of recipients. Exploration work features different sorts of loaning under need area loaning and guidelines for the equivalent alongside sum dispensed for the area for the period 2007-2014. The investigation of the auxiliary information gathered from different sources recommends that there is a steady expansion in the credit hole and sort of appropriation, however, the development has been seen in this area. Creators prescribed that the loaning of PSL be created in such a way that the credit compasses to the end clients and the ideal segment of society and further the quantum of credit ought to likewise be satisfactory. To accomplish this, it is significant (a) to have a component to boost banks to meet these objectives (b) to have a periodical audit and up a degree of PSL targets and its casing work.

Kesavan (2016) in their review named "A Study on the Non-Performing Assets of Banks in India" expressed that among all capacities, one of the significant obligations of the banks is progressing to different significant areas like lodging, agribusiness, and industry, yet lately banks are hesitant in loaning. Scientists revealed that preceding 31st March 2004 NPA for example Non-Performing Asset was named as in which interest or chief have stayed exceptional for explicit period, which was four quarters. Exploration concentrate on abs endeavor to cover NPAs of banks in India with the most noteworthy NPA and furthermore featuring the causes, factors influencing NPA depends on the applied foundation. Study inferred that a significant degree of NPA is a helpless pointer of

bank execution and development in NPA hauls the benefit as arrangements must be done which impacts the benefit and over all investors esteem. Cautious strides by brokers like the choice of right borrowers, suitable financial action and checking precise end utilization of reserves, and ideal recuperation of credits are exceptionally fundamental and pre conditions for forestalling or dropping the event of new NPAs which will additionally help in upgrading the dependability of the banks and accomplish the reason for the sound monetary construction for its reality

Rana (2016) in study on “Analysis of Non-Performing Assets of Public Sector Banks in India” emphasized that Non-performing Asset has become an important parameter in the analysis of financial performance of a bank and the problem of raising NPAs is mounting day by day affecting the profitability. According to author it is necessary to prevent NPAs so that financial health in the banking system can be improved. Paper is an attempt to understand the meaning, status and its trends of NPA in Indian public banks. For the purpose of analysis NPA’s are further categorized and studied with respect to loan advances to priority and non- priority sectors. Analyzing the data for the period 2004-2014, study concludes that NPA’s are continuously raising in the public sector banks in India and the amount and share of NPA of both banks in priority as well as non-priority sector are continuously increasing.

**Research Gap**

A review of the previous study report has revealed that studies have shown that banks have been able to achieve the annual PSL target and sub-target. There are very few studies that analyze between NPA and PSL. NPAs based on PSL and NPSL could not be found. Therefore, this study is conducted on the basis of this area.

**Statement of the Problem**

The NPA is the biggest problem facing Indian banks. For the economic growth of India, the NPA of banks is changing adversely. It can be seen that the level of NPA in sectoral lending is increasing every year. The extent to which NPAs lend

to banks and the fact that NPAs are a major problem in lending by private sector banks and public sector banks.

**Objectives**

1. Analyze how much NPA is generated on loans by private sector banks and public sector banks.
2. Examine the NPA in the ground of Priority sector and Public sector lending

**Scope of the Study**

The main focus of the study is on how much NPA is generated in sector wise lending. Through this study we will be able to understand the NPA of the lenders as well as whether the public sector bank or the private sector bank has the highest NPA, by analyzing the banks and exploring solutions.

**III. METHODOLOGY**

This study is based on second data. Data is collected on the basis of Banks Annual Report. A total of six banks have been selected. Three banks are from the public sector and three banks are from the private sector. SBI, Punjab National Bank and Canara Bank from Public Sector Bank. But HDFC, ICICI and Axis Bank are selected from private sector banks. The reason for selecting these banks is based on the criteria of selecting the banks which are ranked in first three ranks of the top most banks in the Top Most Bank in Revenue List 2021. In the Private sector, HDFC came first and ICICI came second and Axis Bank in third. In the Public sector, SBI came first and Punjab National Bank and Canara Bank. Data collected from Annual Report from 2016 to 2021.

**IV. ANALYSIS AND INTERPRETATION**

Table 1 describes the percentage of NPA generated by banks in Priority and Non Priority sector Lending from financial year 2016-17 to 2020-2021. Table 2 and figure 1 describes the CAGR (Compound Annual Growth Rate) of NPA in Priority Sector and Non Priority sector Lending from 2016 to 2021

TABLE 1. Percentage of NPA in Public Sector Private Sector Bank

		2016-17		2017-18		2018-19		2019-2020		2020-2021	
		PSL	NPSL	PSL	NPSL	PSL	NPSL	PSL	NPSL	PSL	NPSL
PUBLIC SECTOR	SBI	6.32	7.06	10.21	11.11	8.72	7.15	10.74	4.79	9.37	3.62
	PNB	9.88	13.74	12.71	21.44	13.96	16.32	16.96	14.21	18.76	14.12
	CANARA BANK	5.53	12.99	6.79	16.2	5.97	11.88	8.67	8.21	8.96	8.9
PRIVATE SECTOR	HDFC	1.50	0.85	2.28	0.92	2.13	1.06	2.22	0.92	2.10	1.08
	ICICI	2.16	10.64	2.21	11.53	1.94	9.46	2.28	7.54	3.42	6.05
	AXIS BANK	2.26	6.18	3.07	7.84	2.92	6.05	2.89	5.05	2.98	3.54

TABLE 2. NPA in Public Sector Private Sector Bank -CAGR (Compound Annual Growth Rate)-2020-2021 (From 2016-2021)

		2020-21		
		PSL	NPSL	
PUBLIC SECTOR	SBI	10.35%	-15.38%	-8.53%
	PNB	17.39%	0.68%	
	CANARA BANK	12.82%	6.17%	
PRIVATE SECTOR	HDFC	8.78%	-13.16%	-39.17%
	ICICI	12.17%	-13.00%	
	AXIS BANK	7.16%	-13.00%	

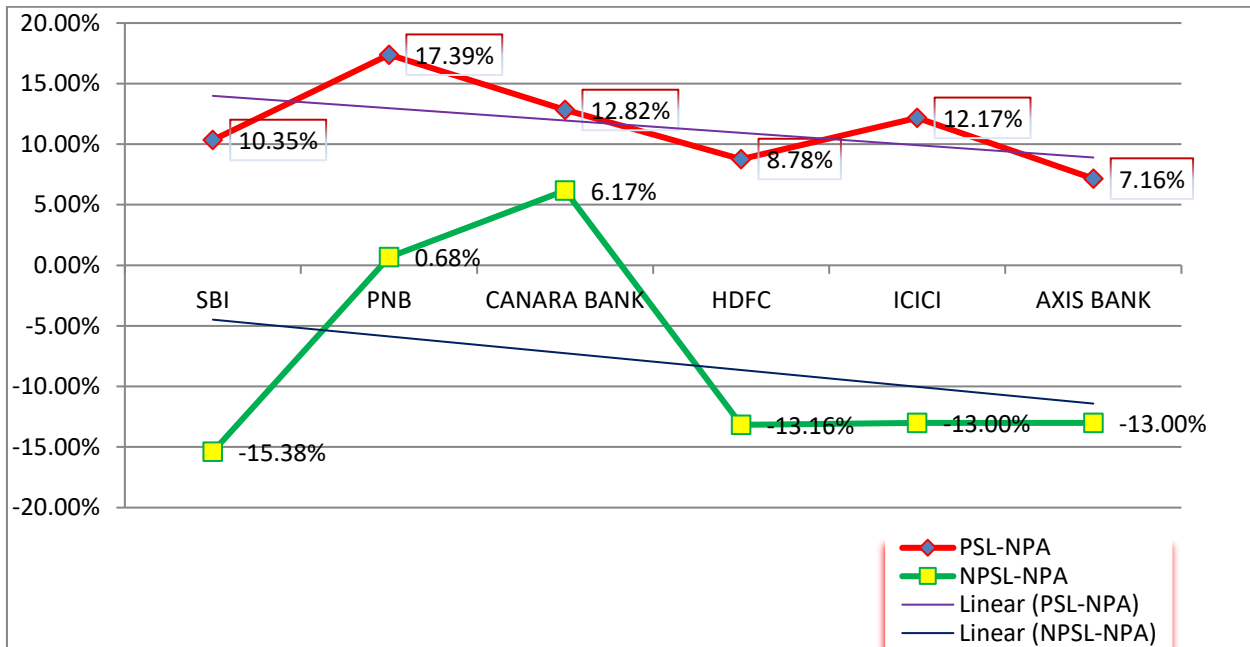


Fig. 1. NPA in Public Sector Private Sector Bank -CAGR (Compound Annual Growth Rate)-2020-2021(From 2016-2021)

Analysis of NPAs in selected Public sector and Private Sector Bank in this study, lowest growth rate of NPA in Priority sector lending is Axis Bank (7.16%) under the Private Sector Bank but highest growth rate of NPA in Priority sector lending is Punjab National Bank (17.39%) Lowest growth rate of NPA in Non-Priority sector lending is HDFC Bank (-13.16%) under the Private Sector Bank but highest growth rate of NPA in Non-Priority sector lending is Canara Bank (6.17%) under the Public Sector Bank. In terms of Sector wise analysis, growth rate of Public Sector Bank is (-8.53%) but the growth rate of NPA in Private Sector Lending is (-39.17%). It implies that reducing NPA in Private sector bank is four times in Public sector bank. It indicates Private sector bank mostly control NPA compared to Private Sector bank.

Major Findings

1. Growth rate of NPA in Priority Sector Lending, private sector banks lower than Public Sector Banks
2. Growth rate of NPA in Non-Priority Sector Lending, private sector banks lower than Public Sector Banks.
3. Growth rate NPA in Priority Sector Lending, Punjab National Bank (PNB) is higher than that of other Banks
4. Growth rate of NPA in Non-Priority Sector Lending, Canara Bank is higher than that of other Banks.
5. Growth rate of NPA in Sectoral Bank, Public Sector Bank is higher than Private sector Bank. HDFC banks NPA is Lower than that of other banks

V. CONCLUSION

Banks provide loans to meet the target set by the RBI, but the NPA is a major problem. From this study it can be seen that even though banks provide loans to a certain extent, the rate of NPA is increasing uncontrollably. If this situation continues, the banking sector will have very bad consequences in the days to come. If the RBI sets up a special cell to monitor the

implementation of the schemes required for its regulation and its proper implementation in the banks and the committees required to regulate it are set up at the bank level to control this, the consequences of the NPA can be controlled to a degree. RBI will set up a special cell to monitor this properly.

REFERENCES

1. Ahmed, J. (2010). Priority Sector Lending by Commercial Banks in India: A Case of Barak Valley. *Asian Journal of Finance & Accounting*, 2(1), 92-110.
2. Seema N & Jyoti A N (2015) A study on priority sector lending and its targets in India, *International Journal of Advanced Multidisciplinary Research*, Vol.2 Issue 6 pp 31-4
3. Kesavan V (2016) A Study on the Non-Performing Assets of Banks in India, *International Journal for Research in Business, Management and Accounting*, Vol. 2 Issue 1 January 2016
4. Nikam K S & Sehgal S (2016) A study of the reasons for rising NPA's in public and private sector banks in India and measures to control it., *International Research Journal of Multidisciplinary Studies*, Vol. 2, Issue 4, April, 2016
5. Saini, P., & Sindhu, J. (2014). Role of Commercial Bank in the Economic Development of India. *International Journal of Engineering and Management Research*, 4(1), 27-31.
6. Rinaldi, L., & Sanchis-Arellano, A. (2006). Household debt sustainability: what explains household nonperforming loans? An empirical analysis. (working paper)
7. Master Circular- Priority Sector Lending- UCBs Circular UBD.CO.BPD.(PCB) MC. No.7/09.09.001/2014-15 dated July 01, 2014
8. Boyd, J. H., & De Nicolo, G. (2005). The theory of bank risk taking and competition revisited. *The Journal of Finance*, 60(3), 1329-1343.
9. Desai, R. (2019). *Impact of Sectorial Advances on Priority Sector NPA – Case of BSE Bankex*. 2(2), 13-21.
10. Goyal, N., Agrawal, R., & Aggarwal, R. (2016). Two Way Fixed Effect Of Priority Sector Lending (Sector Wise) On Non Performing Assets Of Indian Commercial Banks. *International Journal of BRIC Business Research*. <https://doi.org/10.14810/ijbbr.2016.5101>
11. Ranjan Mohapatra, D., & Gaur, D. (2019). *Non-Performing Assets In India: Priority Vs Non-Priority Sector Lending*. <https://www.researchgate.net/publication/341071819>
12. Singh, V. R. (2016). *A Study of Non-Performing Assets of Commercial Banks and it 's recovery in India A Study of Non-Performing Assets of Commercial Banks and it 's recovery in India*. 4(March), 110-125.

13. Desai, R. (2019). *Impact of Sectorial Advances on Priority Sector NPA – Case of BSE Bankex*. 2(2), 121.
14. Goyal, N., Agrawal, R., & Aggarwal, R. (2016). Two Way Fixed Effect Of Priority Seling (Sector Wise) On Non Performing Assets Of Indian Commercial Banks. *International Journal of BRIC Business Research*. <https://doi.org/10.14810/ijbbr.2016.5101>
15. Ranjan Mohapatra, D., & Gaur, D. (2019). *Non-Performing Assets In India: Priority Vs Non-Priority Sector Lending*. <https://www.researchgate.net/publication/341071819>
16. Singh, V. R. (2016). *A Study of Non-Performing Assets of Commercial Banks and it ' s recovery in India A Study of Non-Performing Assets of Commercial Banks and it ' s recovery in India*. 4(March), 110–125.
17. Master circulation –priority sector Lending –RBI/FIDD/2020-2021 FFIDDCO.Plan.BC.5/04.09.
18. .01/2020-202
19. Shabbir, N., & Mujoo, D. R. (2014). Problem of Non Performing Assets in Priority Sector Advances in India. *Journal of Economics and Development Studies*, 2(1), 241-275