GE-International Journal of Management Research
Vol. 4, Issue 10, October 2016 IF- 4.88 ISSN: (2321-1709)

Website: www.aarf.asia Email : editor@aarf.asia , editoraarf@gmail.com

"ASSET QUALITY OF SELECT PUBLIC AND PRIVATE BANKS IN INDIA –A COMPARATIVE STUDY''

[1]Dr. Kavitha. G [2]Mily Williams

[1]Associate professor Department of Commerce, P.S.G.R Krishnammal College for women.

[2]PhD. Research Scholar Department of Commerce, P.S.G.R Krishnammal College for women.

ABSTRACT

The banking sector occupies a very important position in the country's economy, acting as an intermediary to all industries, ranging from agriculture, construction, textile, manufacturing, and so on. The banking industry thus contributes directly to national income and its overall growth although the banking sector is the backbone of any economy and this gains more importance for a country. The study made effort to analyse the Asset Quality of public and private sector banks in India from 2010 to 2014. The results show that the both the sector banks have managed their Asset identically. The correlation test reveals that there is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Net NPA to Net Advances and Asset Turnover ratio at 1% level for public sector banks and for private sector there is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Asset Turnover ratio at 1% level. It is suggested that the both sector should continue to retain same in forthcoming years.

INTRODUCTION

The banking sector has a major impact on the economy as a whole, evaluation, analysis, and monitoring of its performance is very important. Bank is very old institution that is contributing toward the development of any economy and it's treated as an important service industry in modern world. Asset quality ratios are one of the main risks that banks face. As loans have the highest default risk, an increasing number of non-performing loans shows a deterioration of asset quality. Asset quality determines the health of financial institutions against loss of value in the assets. The solvency of financial institutions is typically at risk when their assets become impaired. So it is important to monitor the quality of assets and hence the study seeks to analyse the Asset Quality of the banks. The letter 'A' in CRAMEL model indicates 'Asset Quality' which measures the performance of asset among the various banks.

REVIEW LITERATURE

Ruchi Gupta (2014) has done a study on "An Analysis of Indian Public Sector Banks Using CAMEL Approach". He has made an attempt to evaluate the performance of public sector banks in India using CAMEL approach for a period of five years from 2009-13. The statistical tools used along with their purpose are Kolmogorov-Smirnov test for checking normality in distribution. Arithmetic mean, F-test and one way ANOVA have been used for analysis. The results show that there is a statistically significant difference between the CAMEL ratios of all the Public Sector Banks in India, thus, signifying that the overall performance of Public Sector Banks is different. It has concluded that the banks with least ranking need to improve their performance to come up to the desired standards.

EL-Mehdi Ferrouthi, (2014) in his study on "Moroccan Banks Analysis Using CAMEL Model**"** has analyzed the performance of major Moroccan Financial institutions in Arab for the period 2001-2011 using CAMEL Approach. The research aimed to evaluate Moroccan financial institutions' capital adequacy, asset quality, management, earnings and liquidity and then determine financial performance, operating soundness and regulatory compliance of Moroccan financial institutions. They applied debt equity ratio for analyzing capital adequacy, loan loss provisions to total loans for analyzing assets quality parameter, return on equity for analyzing management quality, return on assets to analyze earnings ability and deposits on total assets ratio to analyze liquidity. Results obtained from the analysis of different ratios show that Credit Du Maroc Bank is ranked the best followed by Credit Agricole Du Maroc, Banque Marocaine Commerce Exterieor and Banque Centrale Populaire Attijari Wafa Bank and Banque Marocaine Pour Le Commerce ET L' Industrie.

OBJECTIVE OF THE STUDY

- To evaluate and compare the 'Asset Quality' by select Public and Private sectors banks and to rank them.

RESEARCH METHODOLOGY

This study is based on the secondary data. In this study, ten commercial banks have been selected (five public sector banks and five private sector for the period of 2010-2014) based on their market capitalization listed by BSE. The annual reports have been used to collect data and for making an analysis of the financial performance of selected Banks. Market capitalization is the aggregate valuation of the company based on its current share price and the total number of outstanding stocks. Asset quality is known by measuring the Return on Advances, Return on Investment, Ratio of Net NPA to Net Advances, Asset Turnover and Interest Income to Total Assets. The gross non-performing loans to gross advances ratio is an indication towards the quality of credit decisions of the bank management. Higher NPA means that loans given by banks are of lower quality. It affects the banks in two ways, first it increases the provision and reduces profit and second it affects the internal accruals for banks in the form of reduced profit. So, it is not good for banks. Ratio analysis and correlation are the tools used. The following are the ratios through which Asset Quality of a bank could be known:

Return on Advances

Return on Investment

Net NPA to Net Advances

Interest Income to Total Assets and

Asset Turnover Ratio.

ANALYSIS AND INTERPRETATION

Return on Advances

Ratio of Return on Advances helps to understand whether the banks under study are getting adequate return on advances made. This ratio is calculated taking into consideration the interest on advances earned and advances made to its customers.

Return on Advances = $\frac{\textit{Interest earned on advances}}{\textit{Average advances}}$(given)

Return on Advances – Public Sector Banks

The Return on Advances of five Public and private Sector Banks for a period of five years from 2009-10 to 2013-14 has been presented below.

Table No: 1

Return on Advances – Public Sector Banks

BANKS	YEARS					Mean	Rank
	2009-10	2010-11	2011-12	2012-13	2013-14		
SBI	1.90	1.47	1.36	1.31	0.92	1.39	5
BOB	8.55	8.49	9.39	8.90	8.32	8.73	4
PNB	10.36	10.58	11.67	11.06	10.36	10.81	1
CAN BK	9.81	9.73	10.93	11.13	10.54	10.43	3
CBI	9.82	10.39	11.36	11.14	10.79	10.70	2
Private Sector Banks							
HDFC	2.33	2.44	2.64	2.81	2.79	2.60	2
ICICI	2.22	8.53	9.55	9.94	10.00	8.05	1
AXIS	2.41	2.37	2.49	2.63	2.71	2.52	3
KOTAK	1.89	1.98	2.04	2.05	2.09	2.01	5
INDUSIND	1.70	2.39	2.29	2.39	2.56	2.27	4

Source: Computed

The Ratio of Return on Advances of selected five public sector banks have been found in a fluctuating trend during study period. Return on advances indicates interest earned on advances to their customers. From the analysis BOB, PNB and CAN BK have been found with a mean ratio of above 10 per cent.PNB bank has been found at the first position with a mean ratio of 10.81 per cent.

The Ratio of Return on Advances for the selected five private sector banks have been more than2 per cent and an increasing trend has been found during the period of study. Among the select private sector banks ICICI bank has been found at the top position and KOTAK at the last.

Comparing Public and private sector Banks public sector banks have high return on advances.

Return on Investment

Return on Investment is a measure of profitability that indicates whether or not a bank is using its resources in an efficient manner. If the long-term return on investment of a bank is lower than its cost-of-capital, then the company will be better off by liquidating its assets. Expressed usually in percentage.

$$\textbf{Return on Investment} = \frac{\textit{interest earned on investment}}{\textit{investment}}\text{(given)}$$

Return on Investment – Public Sector Banks

The Return on Investment of five Public and private Sector Banks for a period of five years from 2009-10 to 2013-14 has been presented below.

Table No: 2

Return on Investment – Public Sector Banks

BANKS	YEARS					Mean	Rank
	2009-10	2010-11	2011-12	2012-13	2013-14		
SBI	4.06	3.78	3.43	3.53	2.50	3.46	5
BOB	4.84	5.73	6.02	3.69	3.91	4.84	4
PNB	6.73	7.05	7.11	7.89	7.85	7.33	3
CAN BK	7.52	7.72	7.96	8.12	8.03	7.87	1
CBI	6.74	7.45	7.53	7.61	7.84	7.43	2

Private Sector Banks							
HDFC	5.04	5.59	5.30	6.03	7.01	5.79	2
ICICI	3.33	6.39	7.24	7.73	7.48	6.43	1
AXIS	1.48	1.73	1.86	2.10	2.39	1.91	5
KOTAK	2.92	3.15	3.44	3.34	3.88	3.35	4
INDUSIND	3.37	4.23	5.55	5.39	6.53	5.01	3

Source: Computed

The Ratio of Return on Investment of BOB and CAN BK have been found to fluctuate during the study period. PNB and CBI have an increasing trend. Return on Investments would bring more profit to the business through proper utilization of its resources. From the analysis PNB, CAN BK and CBI have been found with a mean ratio more than 7 per cent and SBI ranked last (3.46 per cent).

Among the select private sector banks AXIS has been found with the mean ratio of 1.91 per cent which is the least. ICICI has taken the top position at 6.43 per cent closely followed by HDFC and INDUSIND.

The result shows that Public sector Banks are able to generate high revenue through their investments when compared to private sector Banks.

Ratio of Net NPA to Net Advances

The net NPA (Non- Performing Assets) to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. NPAs are those assets for which interest is overdue for more than 90 days (or 3 months). Net NPAs are calculated by reducing cumulative balance of provisions outstanding at a period end from gross NPAs. Higher ratio reflects rising bad quality of loans.

$$\textbf{Ratio of Net NPA to Net Advances} = \frac{\boldsymbol{Net\ \ non\,performing\ assets}}{\boldsymbol{loan}}\ \text{(given)}$$

Net NPA to Net Advances - Public Sector Banks

The Ratio of Net NPA to Net Advances of five Public and private Sector Banks for a period of five years from 2009-10 to 2013-14 has been presented below.

Table No: 3

Net NPA to Net Advances - Public Sector Banks

BANKS	YEARS					Mean	Rank
	2009-10	2010-11	2011-12	2012-13	2013-14		
SBI	1.72	1.63	1.82	2.10	2.57	1.97	4
BOB	0.34	00.35	0.54	1.28	1.52	0.81	1
PNB	0.53	0.85	1.52	2.35	2.85	1.62	3
CAN BK	1.06	1.10	1.46	2.18	1.98	1.56	2
CBI	0.69	0.65	3.09	2.90	3.75	2.22	5
Private Sector Banks							
HDFC	0.31	0.19	0.18	0.20	0.27	0.23	1
ICICI	2.12	1.11	0.73	0.77	0.97	1.14	5
AXIS	0.40	0.29	0.27	0.36	0.44	0.35	3
KOTAK	1.73	0.72	0.61	1.08	0.64	0.96	4
INDUSIND	0.50	0.28	0.27	0.31	0.33	0.34	2

Source: Computed

The ratio of Net NPA to Net Advances for SBI, CAN BK and CBI have shown fluctuating trend. Higher ratio of Net NPA to Net Advances indicates the banks are under risk due to inefficient credit management. BOB and PNB have shown a continuous increasing trend and BOB has been ranked first in the ratio of Net NPA to Net Advances (mean ratio of 0.81 per cent) which implies that the bank has better quality of credit management.

The Ratio of Net NPA to Net advances for selected five private sector banks have been found in a fluctuating trend during study period. Among the select private sector banks ICICI has been found (mean ratio of 1.14 per cent) with the highest mean ratio compared to other banks. HDFC has taken the top most position with mean ratio of 0.23 per cent closely followed by INDUSIND and AXIS.

Comparatively private sector banks have less NPAs to Net Advances than public sector banks which implies private sector banks take stringent steps to make collection from borrowers.

Interest Income to Total Assets

Interest Income to Total Assets shows the proportionate contribution of interest income in total Assets. Banks lend money in the form of loans and advances to the borrowers and receive interest on it. This receipt of interest is called interest income.

$$\textbf{Interest Income to Total Assets} = \frac{\textit{interest income}}{\textit{total assets}}$$

Interest Income to Total Assets - Public Sector Banks

The Ratio of Interest Income to Total Asset of five Public Sector Banks for a period of five years from 2009-10 to 2013-14 has been presented below.

Table No: 4

Interest Income to Total Assets - Public Sector Banks

BANKS	YEARS					Mean	Rank
	2009-10	2010-11	2011-12	2012-13	2013-14		
SBI	6.74	6.65	8.04	7.87	7.89	7.44	4
BOB	6.06	6.15	6.82	6.51	5.98	6.31	5
PNB	7.24	7.13	7.95	8.75	7.85	7.84	2
CAN BK	7.08	6.85	8.24	8.26	8.04	7.69	3
CBI	14.25	7.27	8.33	8.15	8.44	9.29	1
Private Sector Banks							
HDFC	7.28	7.21	8.34	8.96	8.66	8.09	3
ICICI	6.16	4.87	5.55	6.65	6.62	5.97	5
AXIS	6.45	6.25	7.71	7.99	7.96	7.27	4
KOTAK	8.70	8.24	9.41	9.61	10.01	9.19	1
INDUSIND	7.65	7.87	9.30	9.53	9.48	8.76	2

Source: Computed

The Ratio of Interest Income to Total Assets for the selected five public sector banks have been more than 6 per cent and a fluctuating trend has been found in the study. The analysis proves that nearly 10 per cent of the total income of CBI is earned through interest income by utilizing their assets. CBI bank has been found at the top most position with the mean ratio of 9.29 per cent followed by PNB, CAN BK, SBI and BOB.

The Ratio of Interest Income to Total Asset of KOTAK is the maximum (9.19 per cent) and ICICI has taken the last position (5.97 per cent) Next to KOTAK, INDUSIND, HDFC and AXIS have taken their respective positions according to their performance.

The ratio of Interest Income to Total Assets for all the banks is found range between 6 and 10 per cent during the study period.

Asset Turnover Ratio

The Asset Turnover Ratio measures the ability of a bank to use its assets efficiently to generate revenue. A higher ratio indicates that the bank is utilizing all its assets efficiently to generate revenue.

$$\textbf{Asset Turnover Ratio} = \frac{\textit{Revenue}}{\textit{Average total assets}} \text{ (given)}$$

Asset Turnover Ratio - Public Sector Banks

The Ratio of Asset Turnover of five Public Sector Banks for a period of five years from 2009-10 to 2013-14 has been presented below.

Table No: 5

Asset Turnover Ratio - Public Sector Banks

BANKS	YEARS					Mean	Rank
	2009-10	2010-11	2011-12	2012-13	2013-14		
SBI	0.09	0.08	0.09	0.09	0.09	0.09	1
BOB	0.08	0.07	0.08	0.07	0.07	0.07	5
PNB	0.08	0.09	0.09	0.09	0.08	0.09	1
CAN BK	0.09	0.08	0.09	0.09	0.09	0.09	1
CBI	0.08	0.08	0.09	0.09	0.09	0.09	1

Private Sector Banks							
HDFC	0.11	0.09	0.10	0.11	0.10	0.10	3
ICICI	0.07	0.08	0.08	0.08	0.08	0.08	5
AXIS	0.10	0.07	0.09	0.09	0.09	0.09	4
KOTAK	0.10	0.11	0.11	0.11	0.10	0.11	1
INDUSIND	0.10	0.10	0.12	0.11	0.11	0.11	1

Source: Computed

The Ratio of Asset Turnover for the selected five public sector banks have been below 1 per cent. Higher Asset Turnover ratio shows that has bank has utilized all its assets efficiently to generate revenue. Among the select public sector banks, BOB has been found with a slightly lesser mean ratio (0.07) compared to other banks which have a same mean (0.09) during the study period.

The Ratio of Asset Turnover for selected five private sector banks have been below 1. Among the select private sector banks ICICI has found with the mean ratio of 0.08 per cent which is the lowest mean ratio compared with other banks in the study. KOTAK and INDUSIND have taken the top most position (mean of 0.11 per cent) followed by HDFC, AXIS and ICICI.

Private sector Banks have turned over their assets faster than public sector Banks comparatively.

Correlation between Asset Quality Ratios- Public Sector

Table no: 6 - Correlation between Asset Quality Ratios - Public Sector

Ratios	Return on Advances	Return on Investment	Net NPA to Net Advances	Interest Income to Total Assets	Asset Turnover
Return on Advances	1.00	.860**	-.047	-.076	-.059
Return on Investment		1.00	.131	.057	.278
Net NPA to Net Advances			1.00	.214	.518**

Interest Income to Total Assets				1.00	-.020
Asset Turnover					1.00

Source: computed ** Significant at the 1% level.

The above exhibit shows the degree of relationship among the Asset Quality ratios and Asset Quality ratios have low to moderate level of correlation. The highest correlation is found between Return on Advances and Return on Investment (.860).The next highest correlation is between the ratio of Net NPA to Net Advances and Asset Turnover ratio. Return on Advances is negatively correlated with Net NPA to Net Advances, Interest Income to Total Asset and Asset Turnover ratio.

Return on Investment is positively correlated with Net NPA to Net Advances, Interest Income to Total Assets and Asset Turnover ratio. Ratio of Net NPA to Net Advances is positively correlated with Interest Income to Total Assets ratio. Interest Income to Total Asset ratio is found to have negative correlation with Asset Turnover ratio.

There is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Net NPA to Net Advances and Asset Turnover ratio at 1% level.

Correlation between Asset Quality Ratios-Private Sector

Table no: 7 – Correlation between Asset Quality Ratios -Private Sector

Ratios	**Return on Advances**	**Return on Investment**	**Net NPA to Net Advances**	**Interest Income to Total Assets**	**Asset Turnover**
Return on Advances	1.00	.650**	.207	-.007	-.535**
Return on Investment		1.00	-.063	-.210	-.004
Net NPA to Net Advances			1.00	.194	-.380
Interest Income to Total Assets				1.00	-.153
Asset Turnover					1.00

Source: computed **Significant at the 1% level.

The correlation result table shows that Asset Quality ratios have low to moderate level of correlation. The highest correlation is found between Return on Advances and Return on Investment (.650). The next highest correlation is between Return on Advances and Asset Turnover ratio (-535). Return on Advances is positively correlated with Net NPA to Net Advances and negatively correlated with Interest Income to Total Assets.

Return on Investment is negatively correlated with the rest of the ratios. Ratio of Net NPA to Net Advances is positively correlated with Interest Income to Total Assets ratio and negatively correlated with Asset Turnover ratio. Interest Income to Total Assets ratio is found to have negative correlation with Asset Turnover ratio.

There is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Asset Turnover ratio at 1% level.

CONCLUSION

The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers. Poor asset quality and low level of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures. It affects the banks in two ways, first it increases the provision and second it affects the internal accruals for banks in the form of reduced profit. The present study found that both sector banks have managed their Assets identically. The correlation test reveals that there is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Net NPA to Net Advances and Asset Turnover ratio at 1% level for public sector banks and for private sector there is a significant correlation between ratios of Return on Advances and Return on Investment ratio and Asset Turnover ratio at 1% level. It is suggested that the both sector should continue to retain same in forthcoming years.