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## A Comparative Study of NPAs of Public and Private Sector Commercial Bank against Loans to SHGs

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### Abstract

Indian banking sector is continuously facing problem of NPAs in spite of several efforts by Government of India as well as RBI. Present research paper is about NPAs in concern with SHGs, commonly known as Self Help Groups. SHG being a part of microfinance tools which deals with eradicating of poverty especially in rural areas where access of financial help is still out of reach to rural households. SHGs provide financial help to rural households with the help of banks as banks provide loans to SHGs at very cheaper rate of interest and then SHGs provide these loan amount to their members. Loan provided by the banks to SHG, which are not repaid by the groups, gradually become NPAs. So, this paper is an effort to study comparatively the NPAs of private and public sectors banks in concern with loan granted to SHGs by these banks. Data used for present study is secondary in nature and various tools and techniques are used in this paper as per the requirements of the study.

**Keywords:** NPAs, SHGs, microfinance, poverty, households, loans.

### Introduction

Today NPAs are the big concern for any bank in India and Government and banking regulatory authority like Reserve Bank of India, are continuously working to minimise the NPAs by making policy, rules, regulations and law. As per the Reserve Bank of India's Financial Stability Report (FSR) of December 2020 has stated that banks' gross non-performing assets (GNPAs) may rise sharply to 13.5 per cent by September 2021, and escalate to 14.8 per cent, nearly double the 7.5 per cent in the same period of 2019-20, under the severe stress scenario. According to the Reserve Bank of India (RBI), the gross non-performing assets in Indian banks, specifically in public sector banks, are valued at around ₹ 400,000 crore (~US\$61.5 billion), which represents 90% of the total NPA in India, with private sector banks accounting for the remainder. Money provided by banks to any company or person in the form of loan, when such money is not repaid by the borrower after sometime is considered as bad loans or non-performing assets of the banks. As per the RBI, NPA is defined as loan or advances made by banks where interest or/and principal installment remain overdue for the period of more than 90 days. In 1990s SHGs movement started then the level of NPAs in SHGs are almost zero, but as the movement progress the NPAs level increased significantly. In 2010 the NPA of banks against loans to SHGs was ₹ 1474.11 crore and on 31<sup>st</sup> march, 2020 the amount of NPAs rose to ₹ 5,321 crore. Self Help Group (SHG) is a formal association of the poor, generally 10 to 20 rural women, worked together to deal with their common problems like poverty, unemployment, education to their children, health etc. The members of the group pool their saving to tackle the problems of their family and take loans to start small businesses and also for consumption purposes. This research paper is designed to analyse the NPAs of public and private sector commercial banks against loans to SHGs.

### Literature Review

(Malyadri et al., 2011) Analysed the NPAs of public and private sector bank pertaining to weaker sections by using percentage and CAGR and found that the public sector banks have

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achieved a greater penetration compared to the private sector banks vis-à-vis the weaker sections.

(Debnath & Dash, 2015) Examined the trend of NPAs of public, private and foreign bank to know the impact of NPAs on performance of bank, did research by applying various statistical tools like correlation, regression analysis and ANOVA and result showed that there is decrease in ratio of NPAs which leads to improvement of performance of bank in managing NPAs.

(Das, 2013) Analysed the NPAs and recovery rate of SHG in southern region (SR) and north eastern region (NER) with the help of descriptive statistical tools and found that the share of NPAs to total loans outstanding was higher and percentage of recovery to demand of total SHGs was lower in NER.

(Randhawa & Kaur, 2020) Compared the NPAs of banks loan given to SHGs across different agencies, public sector commercial bank, private commercial bank, cooperative bank and regional bank and found that cooperative bank have highest NPAs an public bank have least NPAs besides this it was also observed that there is fluctuating trend of NPAs of Cooperative and public sector banks and decreasing trend of NPAs of regional rural banks and increasing trend of NPAs of private sector bank.

(AbidHusain G Kadiwala and Rasikbhai I Prajapati, 2020) Studied to compare NPAs of public and private sector bank by applying descriptive statistical tools like percentage, mean, standard deviation, ANOVA etc. and their result revealed that public sector bank is having higher NPAs in comparison to private sector bank.

(Bhaskaran et al., 2016) Compared the NPAs of public and private sectors bank with the help of correlation and regression and found that the level of NPA is higher in public bank than private bank.

(Rameshbhai, 2020) Analysed to compare gross and net NPAs of public and private sector bank by using statistical tools like percentage and average and result showed that public sector bank had more NPAs in comparison to private sector bank during that study period.

(Senthil Arasu et al., 2019) Studied to analyse the level of NPAs of public and private sector bank with the help of mean, S.D., correlation and regression and found that there is significant impact of ownership of NPAs, is that public sector bank has higher NPAs.

(Sridevi & Singh, 2019) Tried to know the level of NPAs of SHGs under region wise and agency wise, their study revealed that north eastern region had witnessed the highest

level of NPAs of SHGs among all the six region and NPAs against loan outstanding to SHGs found higher in commercial bank followed by RRB and cooperative bank.

**Research Objectives**

1. To analyse the NPAs of public sector commercial banks against loans to SHGs.
2. To analyse the NPAs of private sector commercial banks against loans to SHGs.
3. To analyse comparatively the NPAs of public and private sector commercial banks against loans to SHGs.

**Hypotheses**

**H<sub>0</sub>:** There is no significance correlation between loan disbursed by public sector banks and their NPAs.

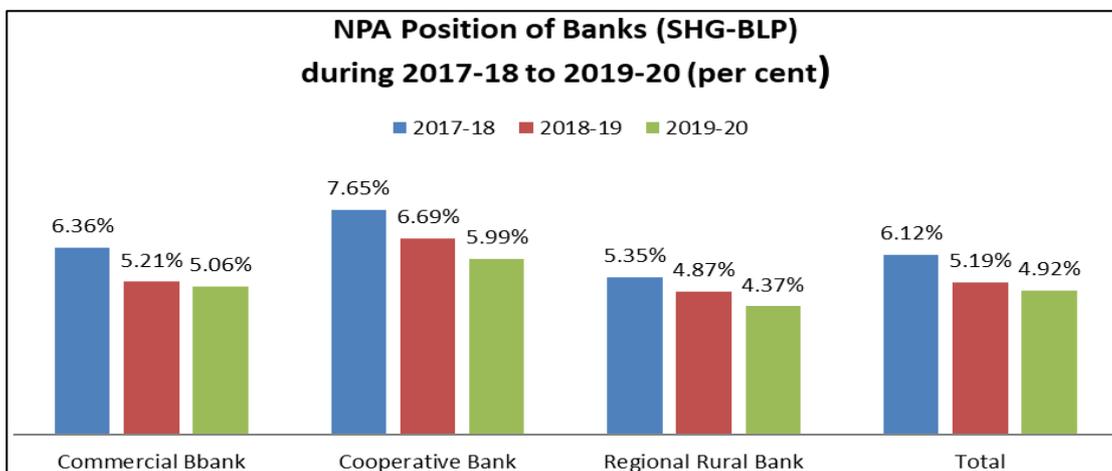
**H<sub>1</sub>:** There is no significance correlation between loan disbursed by private sector banks and their NPAs.

**Research Methodology**

This research paper is analytical in nature and data used for this research work are secondary in character. Data are collected from government official reports, NABARD’s report, RBI’s report, RBI’s websites, and different government official websites. Data related with NPAs of public and private sector commercial banks against loans to SHGs, have been collected for 10 years ranging from 2011 to 2020. Data are analysed with the help of SPSS and Microsoft Excel and tools used in this research work are mean, percentage, CAGR, correlation, regression etc. Data are presented by using graphs, tables, diagrams, charts.

**Result and Discussion**

Current position of NPAs of different sector banks against SHGs loans, showed that cooperative banks have high NPA rate followed by commercial banks and regional rural banks respectively. During 2017-18 to 2019-20, it was shown that NPA of all banks sector decreasing. The overall NPA rate in bank loan to SHGs was 4.92 percent as on 31.03.20 registering a fall of 27 basis points from the previous level of 5.19 per cent. All categories of banks have reduced their NPA level during 2019-20. The RRBs have reduced their NPA level from 4.87 per cent in 2018-19 to 4.37 per cent in 2019-20. Similarly, Cooperatives have reduced their NPA level from 6.69 per cent in 2018-19 to 5.99 per cent in 2019-20.



NPAs of Commercial Banks against Loans outstanding to SHGs during 2010-11 to 2019-20:

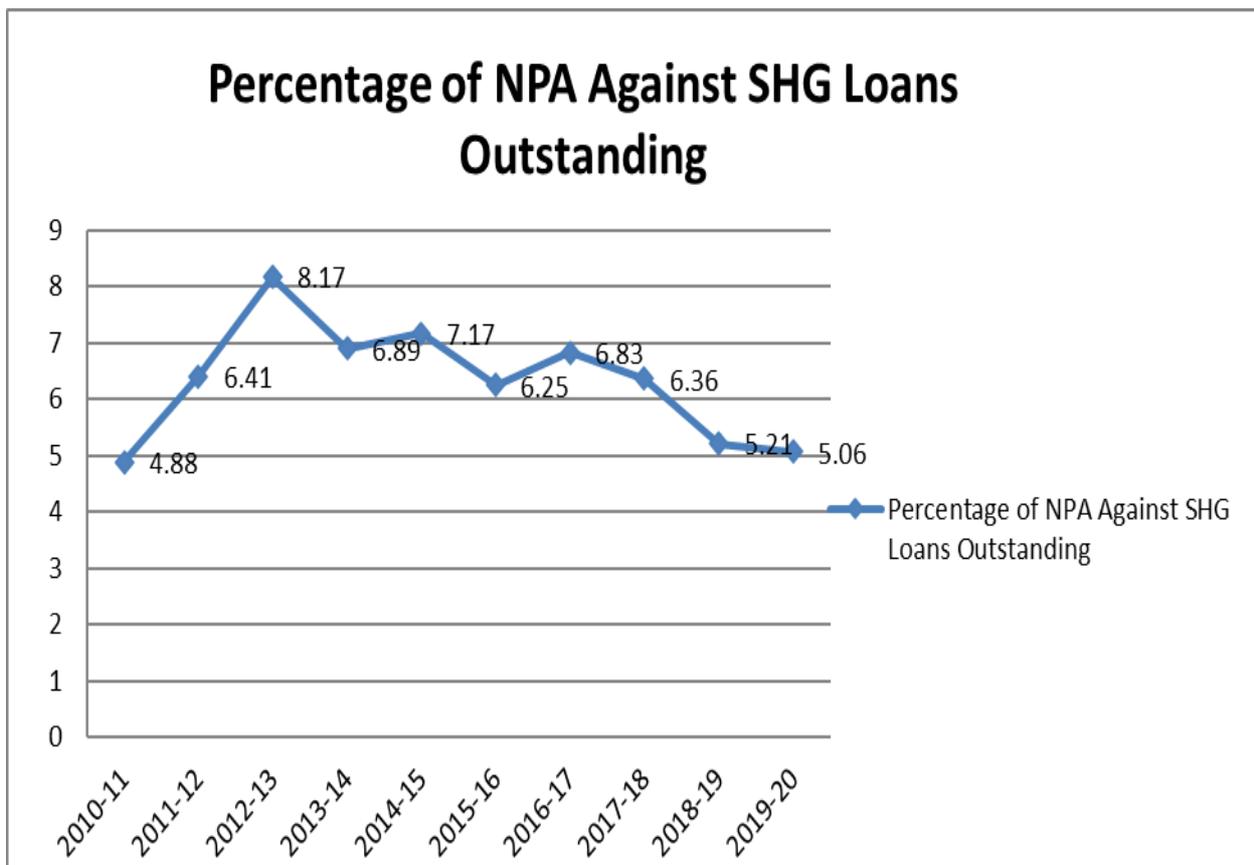
Overall NPA of all commercial bank against SHG loans outstanding showed increasing trend and in the year 2010-11, NPA amount of all commercial banks was ₹ 106698.92 lakh and it raised to ₹ 360466.90 lakh in the year 2019-20. There is remarkable increase in amount of loan outstanding to SHG by all commercial banks in last ten years which is ₹ 7121582.37 lakh in year 2019-20 that was ₹ 2188325.67

lakh in year 2010-11. Numbers of SHG are also increase in last ten year to whom loan had been provided as shown in the following table. CAGR of loan outstanding of commercial bank for last ten years was calculated 14.01 % and of amount of NPA was computed 14.48 %. CAGR for rate of NPA to total loans outstanding was 0.40 %.

Year	No. Of SHGs	Loan Outstanding (Commercial bank) (₹ in lakh)	Amount of NPA (₹ in lakh)	NPA as Percentage to Total loans Outstanding
2010-11	3053472	2188325.67	106698.92	4.88
2011-12	2617199	2581028.86	165541.56	6.41
2012-13	2643971	2663944.38	217598.68	8.17
2013-14	2501264	2938841.31	202492.02	6.89
2014-15	2602484	3440700.57	246686.47	7.17
2015-16	2626364	3714562.48	232139.69	6.25
2016-17	2670304	3866846.83	264111.59	6.83
2017-18	2904086	4874805.16	310119.98	6.36
2018-19	2901209	5564111.05	289739.17	5.21
2019-20	3294643	7121582.37	360466.90	5.06
<b>CAGR</b>		<b>14.01%</b>	<b>14.48 %</b>	<b>0.40%</b>

Following graph showed last ten-year rate of NPAs of commercial banks against loans outstanding to SHGs, it is revealed that percentage of NPAs to loans outstanding to SHGs, from 2010-11 to 2012-13, increased from 4.88 % to 8.17 % then in 2013-14 it was decreased to 6.89 %, again in 2014-15 it was increased but from 2014-15 to 2019-20 it was decreasing continuously only exception to 2016-17

year when there was marginal increased from the previous year. If we compare NPAs of 2019-20 year to 2010-11 year, it was found that there is increase of NPA rate, in 2010-11 it was 4.88 % and in 2019-20 the rate of NPA was 5.06 %. It can be said that all commercial banks have to take strong measure to combat the problems of NPAs against loans outstanding to SHGs.



#### Comparison between Public Sector Commercial Banks' NPA and Private Sector Commercial Banks' NPA Against SHG Loans Outstanding

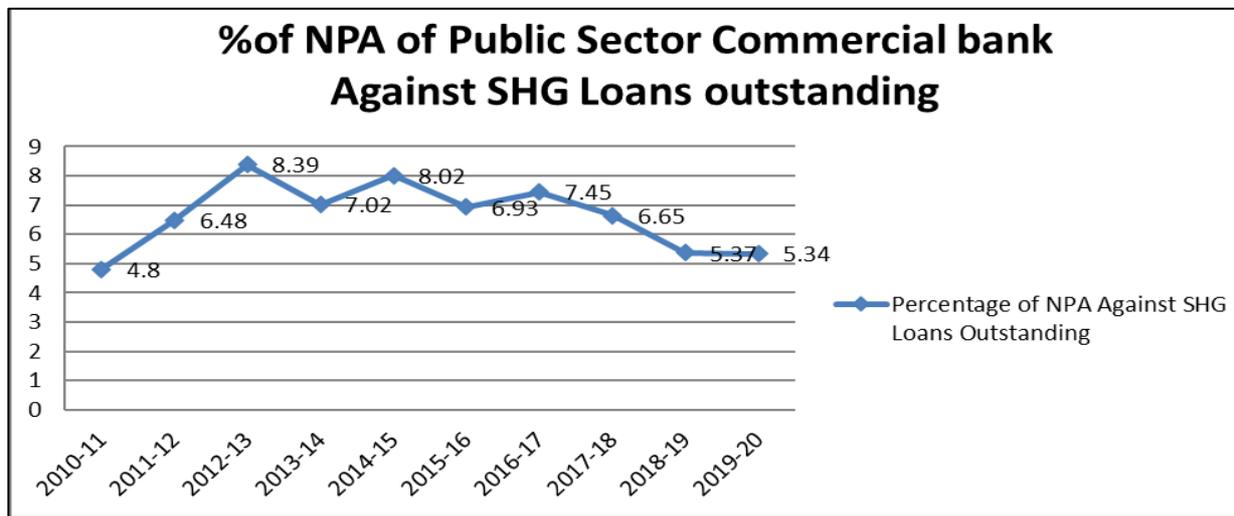
Loans disbursed by private sector commercial banks to SHGs shows that there is increasement of loans disbursement by public sector commercial banks to SHGs

as loans given by public sector commercial banks to SHGs was ₹ 943012.70 lakh in 2010-11 and it rose to ₹ 4258971.12 lakh in 2019-20. Following table shows ten-year data of NPAs of SHGs and loans disbursed by public sector commercial banks and private sector commercial banks.

Year	Public Banks			Private Banks		
	Loans Disbursed by Public Sector Commercial Banks (₹ in Lakh)	Amount of NPA (₹ in Lakh)	Percentage of NPA Against SHG Loans Outstanding	Loans Disbursed by Private Sector Commercial Banks (₹ in Lakh)	Amount of NPA (₹ in Lakh)	Percentage of NPA Against SHG Loans Outstanding
2010-11	943012.70	101989.91	4.8	29442.57	4709.01	10
2011-12	939526.46	158104.83	6.48	54678.02	7436.73	5.3
2012-13	1209167.31	212923.55	8.39	129333.39	4675.13	3.69
2013-14	1411386.56	196636.48	7.02	192362.79	5855.54	4.22
2014-15	1359511.05	242317.32	8.02	373901.61	4369.15	1.05
2015-16	2052045.99	225936.64	6.93	466451.24	6203.05	1.36
2016-17	1984504.47	255278.13	7.45	445197.39	8833.46	2
2017-18	2505833.52	296948.57	6.65	364928.85	13171.41	3.19
2018-19	3073519.16	278071.34	5.37	375727.58	11667.83	3.04
2019-20	4258971.12	341721.41	5.34	584137.44	18745.49	2.59
<b>CAGR</b>	<b>18.24%</b>	<b>14.38%</b>	<b>1.19%</b>	<b>39.37%</b>	<b>16.59%</b>	<b>-13.94%</b>

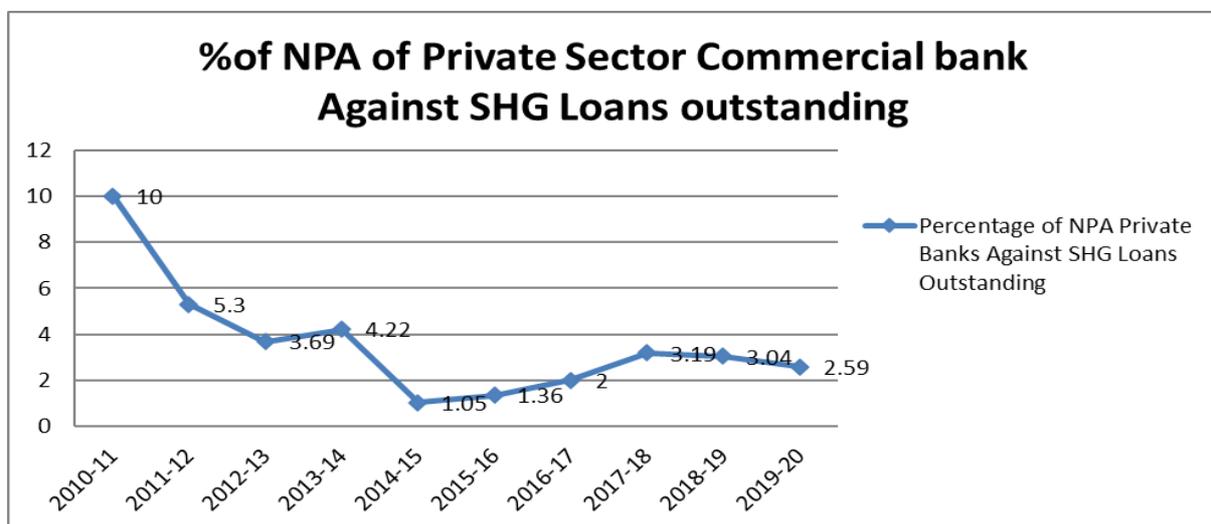
Percentage of NPA of public sector commercial banks against SHG loans outstanding initially increased rapidly as shown in the graph in the year 2010-11 it was 4.8 % and

raised to 8.39 % in the year 2012-13 and afterword it showed decrease in the rate of NPA with the exception in the year 2014-15 and 2016-17 where it increased.



Percentage of NPA of private sector commercial banks against SHG loans outstanding showed initially rapid decreasing trend as graph showed that in the year 2010-11 the percentage of NPA of private sector commercial banks against SHG loan outstanding was 10 % which decreased to 3.69 % in the year 2012-13. Then after it increased slightly in the year 2013-14 which was 4.22 % and after a

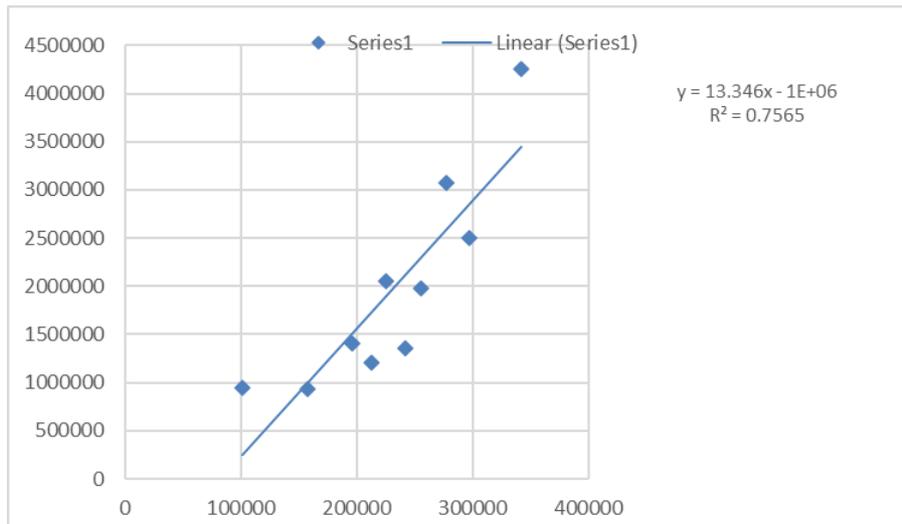
year remarkable decrease in the rate of NPA can be seen in the year 2014-15 which stood 1.05 % which was lowest in the last ten year. After 2014-15 there is increase in the percentage of NPA of private sector commercial banks against SHG loans till 2017-18 and then in last two years it showed decreasing trend.



**Testing of Hypotheses**

**H<sub>0</sub>:** There is no significance correlation between loan disbursed by public sector banks to SHGs and their NPAs.

**H<sub>1</sub>:** There is significance correlation between loan disbursed by public sector banks to SHGs and their NPAs.



Regression Statistics	
Multiple R	0.869789
R Square	0.756533
Adjusted R Square	0.7261
Standard Error	555272.6
Observations	10

**ANOVA**

	df	SS	MS	F	Significance F
Regression	1	7.66E+12	7.66E+12	24.85873	0.001072
Residual	8	2.47E+12	3.08E+11		
Total	9	1.01E+13			

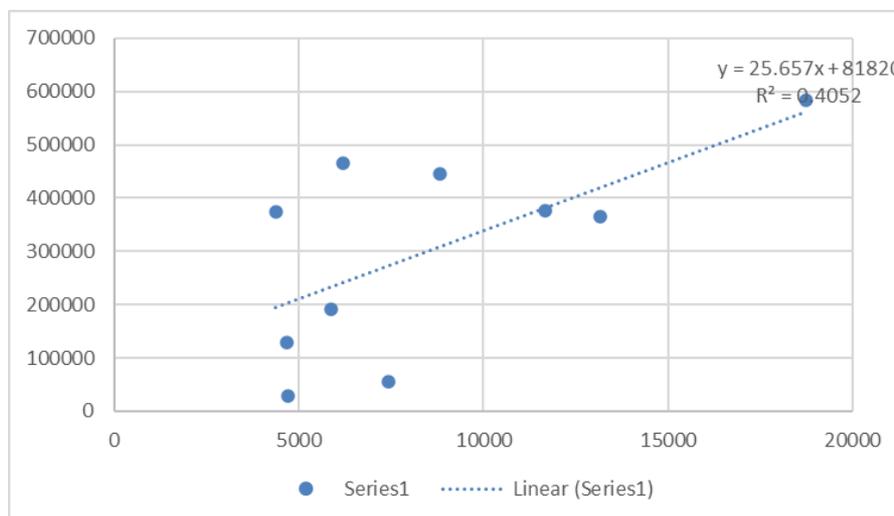
	Coefficient s	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	-1109066	642761.8	-1.72547	0.122723	-2591277	373145.7	-2591277	373145.7
NPA of Public Sector Bank	13.34593	2.676759	4.985853	0.001072	7.17331	19.51855	7.17331	19.51855

To test the hypotheses, regression and correlation analysis is used and result showed that at 0.05 level of significance p- value is 0.001072 which is less than 0.05 it means that there is a significant positive correlation between loan disbursed by public sector banks to SHGs and their NPAs,

$r(8)=0.86, p<.05$ . Hence null hypothesis is rejected.

**H<sub>0</sub>:** There is no significance correlation between loan disbursed by private sector banks to SHGs and their NPAs.

**H<sub>1</sub>:** There is significance correlation between loan disbursed by private sector banks to SHGs and their NPAs.



<i>Regression Statistics</i>	
Multiple R	0.636553
R Square	0.4052
Adjusted R Square	0.33085
Standard Error	154006.7
Observations	10

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	1.29E+11	1.29E+11	5.449891	0.047825
Residual	8	1.9E+11	2.37E+10		
Total	9	3.19E+11			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	81819.63	106001.4	0.771873	0.462379	-162620	326259.2	-162620	326259.2
NPA of Public Sector Bank	25.65713	10.99042	2.3345	0.047825	0.313184	51.00109	0.313184	51.00109

At 0.05 level of significance p- value is 0.047825 which is less than 0.05 it means that there is a significant positive correlation between loan disbursed by private sector banks to SHGs and their NPAs,  $r(8)=0.64$ ,  $p<.05$ . Hence null hypothesis is rejected.

From the above result it is concluded that loan disbursed by public sectors banks to SHGs is more prone to become NPAs than loan disbursed by the private sector banks to SHGs.

## Conclusion

The present study revealed that percentage of NPAs of public sector commercial banks against SHGs loans outstanding initially increased rapidly from 4.8% in 2010-11 to 8.39% in 2012-13 then afterword it showed the decreasing trend which is 5.34% in 2019-20 and percentage of NPAs of private sector banks against SHGs loans outstanding showed decreasing trend from 10% in 2010-11 to 2.59% in 2019-20. It can be said that private sector commercial banks are more efficient in managing their NPAs as compared to public sector commercial banks as per the NPAs trends of public sector banks and private sector banks. As public sector commercial banks having more NPAs than the private sector banks so public sector commercial banks have to work on managing their NPAs against loans to the SHGs. Result also revealed that correlation between loans disbursed by public sector commercial banks to SHGs and their NPAs are higher than the correlation between the loans disbursed by the private sector commercial banks to SHGs and their NPAs. Thus, we can say that there is a possibility that loans given by public sector banks to SHGs are more likely to become NPAs than the loans given by the private sector commercial banks to SHGs.

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