A Study on the Analysis and Comparison of
Non Performing Asset of Canara and HDFC Bank

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ABSTRACT

Financial system plays a vital role in the development of an economy which is the key factor towards a countries development. It acts as an intermediary between flows of fund for those who save as a part of income and those investing in productive assets. A strong financial system is essential for strengthening the economy and fulfillment of its objective. Indian financial sector includes banking and non banking institutions. Banking institutions have the major role of accepting long term deposit and lending money to the borrowers. The present study is more relevant, as the banks have higher Non Performing assets. more preventive measures should be taken to control it ,as we cannot stop it at an immediate terms. This study focus on NET-NPA, NET-PROFIT, GROSS-NPA &TOTAL ADVANCE of a public sector bank and a private sector bank which are CANARA BANK and HDFC BANK. In these NET NPA and NET PROFIT of two banks are taken to measure correlation, and all including GROSS NPA and TOTAL ADVANCE are used for graphical representation.

Keywords: Non performing asset, net NPA, Gross NPA, Total advances

INTRODUCTION:

Non-performing assets (NPA) are those assets which does not generate income periodically. The non repayment of loans and advances by the customers to the bank are considered as bad loans. According to the RBI, if the payment of installment or interest on the principal amount remained overdue for a period of more than 90 days from the end of particular quarter is called a Non performing asset. Non performing assets create problems to the financial institutions as they depend up on the interest payment for income.

For identification of NPA, to ensure greater transparency in accounting standards it has been decided to adopt the '90 days overdue norm' from the year ending 31, march 2004. With this effect a non performing asset (NPA) is a loan or an advance where;

- The payment of interest or installment on the principal amount remained overdue for a period of more than 91 days.
- In case of an advance granted for agricultural purpose, The payment of interest or installment on the principal amount remained overdue for two harvest season but for a period not exceeding two half years.
- In case of bills purchased or discounted, the payment of bills remained overdue for a period more than 90 days.
- In respect of an Overdraft/Cash Credit (OD/CC), the accounts remain 'out of order' for a period of more than 90 days.
- In case of cash credit facility, stock statement submission has not been made for 3 continuous quarters.
- The transaction in the account has not been active for more than 91 days

Major causes of NPA are:

- Defective lending process
- Poor credit appraisal system
- Mismanagement
- Economic conditions
- Improper SWOT (strength, weakness, opportunity, threat)analysis
- Industrial problem
- Recession in market
- Lack of proper follow-up by bank

REVIEW OF LITERATURE:

The available literatures relating to committee, text books and research papers have been presented.

Narasimham Group Report (1991) led to the erroneous belief that there was little worry about a low capital base of the banks. The lack of proper disclosure norms led to the problem being kept under cover. Poor internal controls raised serious doubts about the integrity of the system. All this was reflected in the need for higher spreads that pointed to the inefficiency of the system. By 1990, there was a cause for serious concern on account of poor financial condition of public sector commercial banks and financial institutions. The Government appointed a high level committee headed by M. Narasimham, Ex-RBI Governor,to examine all aspects relating to the structure, organization, functions and procedures of the financial system. The Committee made certain recommendations relating to Capital Adequacy Norms, Prudential Norms, Revaluation of the Assets, SLR, CRR, etc.

Toor N.S. (1997) explained the concept of NPAs and management of NPAs from bankers' point of view and explains the strategy to be followed in handling borrowing accounts right from pre-sanction stage till recovery of the loan. The book is a practical guide for the practicing bankers and serves as a ready reckoner. However, this book does not contain any statistical data of NPAs.

Indira Rajaraman, Suman Bhaumik and Namita Bhatia (1999) attempted to explain inter-bank variation in NPAs for the year 1996-97. They have done test for the impact of the region of operation on domestically owned banks in each of the state clusters. Banks' net NPAs as a percentage of advances for the year 1996-97 were regressed on the ownership and regional presence, controlling for the bank specific efficiency and prudential indicators. The findings showed that bank specific characteristics such as ownership of adherence to prudential norms are not sufficient to explain inter-bank variability of NPAs. But the regional operation matters. They concluded that no sustainable improvement in the enforcement environment in difficult regions of the country. If the banks report regional wise NPAs the regional exposure effect becomes evident. In the case of foreign banks, it is not the ownership pattern but banking efficiency and technology co-relates in the country of origin of the bank that determine NPA performance in Indian environment

Bidani S.N. (2001) discussed the reasons for high NPAs in banks. The cause for slippage of accounts to NPAs category are identified and categorized into (i) borrowers related (ii) bank related and (iii) general causes. The concept of NPAs is explained with references to different credit facilities. RBI instructions on asset classification, prudential norms relating to income recognition and provisioning were also discussed. Monitoring system for existing and likely NPAs along with guidelines for recovery measures and strategies and action plans for reduction of NPAs are also discussed.

Sardar Gujral N.S. (2003) explained the impact on profits and capital base. The mounting NPAs raise the cost of credit and make banks more averse to risks and reduce the credit. Due to the crippling effect of NPAs, asset quality becomes an important parameter in the measurement of performance of banks. Researcher also mentioned that the priority sector and non-priority sector shared almost equally in total NPAs among priority and non-priority sectors.

Reddy (2003) According to his study, he reveals that financial stability is an essential prerequisite for sustainable long-term economic growth of any country. The non-performing assets were posing a serious threat to this objective of the banking system. The authors concluded that macro and micro level reforms and adherence to cleaner practices on the part of banks, regulator, borrowers and government will enable the system to get rid of the NPAs overhang and let financial system be an essential adjunct for economic growth.

Sangeeta Arora and Shubapreet Kaur (2008) analyzed the financial performance of diversified banks over a period of 2000-05 considering various internal and external factors like economies of scale and scope, competition, risk reduction etc. which are forcing banks to diversify and found a continuous decline in interest margins after 2001 which indicates that a low level of interest margin pushes the banks to generate income from alternative sources of revenues other than interest income. Banks will have to concentrate more on providing better, faster and more efficient customer service to permit banks to charge higher rates for better and faster service.

OBJECTIVE OF THE STUDY:

- To analyze and compare NPA (Non Performing Assets) of CANARA bank and HDFC bank.
- To understand the performance of CANARA bank and HDFC bank during the last five year.
- To identify nonperforming assets of CANARA bank and HDFC bank.
- To know the relationship between NET PROFIT and NET NPA.
- To make suitable suggestions to handle the situation of NPA.

RESEARCH METHODOLOGY:

The research concentrates on NPA of a public sector bank and a private sector bank. CANARA bank and HDFC bank were taken for the study. This research is analytical in nature. To achieve the objective of the study primary data and secondary data is used.

Data Base:
In the present study data is confined to five year from 2011-2015. For analyzing the NPA of selected banks five year financial performance is analyzed

Data Collection:
In this study primary data and secondary data were collected. Primary data's are collected through informal interviews with manager and officials from Kunnamkulam city in Kerala. The data thus obtained have been analyzed for this study. Secondary data's were obtained for a period of five years (2011-2015) those data's were collected through:
- Annual reports of selected banks
- RBI annual reports
- Previously published records, researches, historical documents.
- From books, periodicals and web sites.

How Research is Conducted:
The present study is descriptive and analytical in nature to achieve the objective. For the present purpose, a bank from public sector and a bank from private sector have been selected with reference to the performance of two banks. Accordingly, CANARA bank from public sector and HDFC bank from private sector have been selected and the performance figures of these banks have been used for comparative analysis and interpretations.

Techniques for Analysis:
The collected data was analyzed and interpreted with the help of graphs and diagrams. Correlation technique was used for comparisons. Both correlation technique and graphs helped this analysis to arrive at convincing conclusions.

Scope of the Study:
This study helps the researcher to improve knowledge about the banking sector, specifically on account of NPAs. This study also helps the banks to know its actual position on NPA management in last five years. This study helps the researcher to know about the steps taken by banks to control NPA.

Significance of the Study:
Among banks based on ownership there are different diversities, among 28 public sector banks themselves have different regions and different consumers using bank credit. Similarly NPA concerns of different banks summarized as a whole and mathematically expressed cannot convey an accurate picture.
Lending activities of banks are adversely affected by NPA as there is no repayment of loans installment and the principle amount ,these adversely affects the profitability of banks and also banks with higher NPA have to carry more owned fund by way of capital to create reserve and cop up the situation.
The high level of NPA of banks leads them in to a complete failure. The domestic and global investors will lack confidence which brings disasters in the economy. The bank's profitability can be improved only by reducing the level of NPA. Timely assessment is desirable at different levels.
In this background, the present study has been attempted to make a comparative study of a private sector and a public sector bank regarding their NPA. As for, CANARA bank and HDFC BANK are taken in to consideration.

Variables of the Study:

Canara Bank (In Crores)

YEAR	2011	2012	2013	2014	2015
GROSS NPA	3089.21	4031.75	6260.16	7570.21	13039.96
NET NPA	2347.33	3386.31	5278.07	5965.46	8740.09
NET PROFIT	4025.89	3282.72	2872.10	2438.19	2702.63
Total Advance	**212467.169**	**232489.81**	**242176.62**	**301067.47**	**330035.51**

HDFC Bank (In Crores)

YEAR	2011	2012	2013	2014	2015
GROSS NPA	1694.34	1999.39	2334.64	2989.28	3438.38
NET NPA	296.41	352.33	468.95	820.03	896.28
NET PROFIT	3926.39	5167.07	6726.28	8478.40	10215.92
Total Advance	**159982.67**	**195420.03**	**239720.64**	**303000.27**	**365495.03**

LIMITATION OF THE STUDY:

- This study considers only one private sector bank and one public sector bank; no foreign banks are taken in to consideration.
- As this analysis have been restricted to two banks that is, Canara bank and HDFC bank, the inferences may not hold 100% when looked at other banks and at individual branch level.
- The tools of analysis used here lacks accuracy as they are adjusted to nearest decimal points.
- The preventive measures taken by the banks are not obtained by the investor, so it lacks accuracy
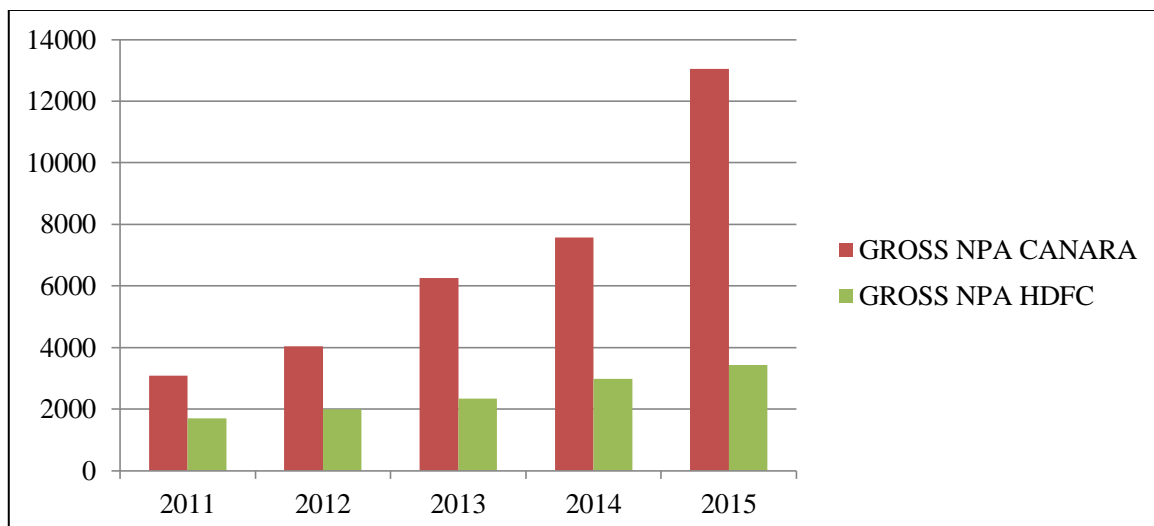
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DATA ANALYSIS AND INTERPRETATION:

Table 1: The Table Showing Five Year Comparison on Gross NPA of Canara Bank & HDFC Bank (In Crores)

Year	Gross NPA of canara bank	Gross NPA of HDFC bank
2011	3089.21	1694.34
2012	4031.75	1999.39
2013	6260.16	2334.64
2014	7570.21	2989.28
2015	13039.26	3438.38

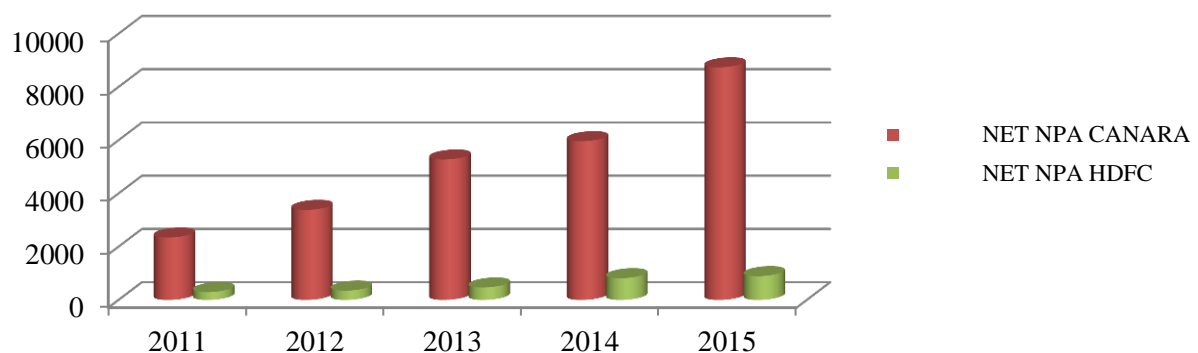**Source:** Secondary Data

Chart 1

Interpretation:
The gross NPA of both banks increases on an increasing scale.

Table 2: The Table Showing Five Year Comparison on Net NPA Of Canara Bank & HDFC Bank (In Crores)

Year	Net NPA of canara bank	Net NPA of HDFC bank
2011	2347.33	296.41
2012	3386.31	352.33
2013	5278.07	468.95
2014	5965.46	820.03
2015	8740.09	896.28

Source: Secondary Data

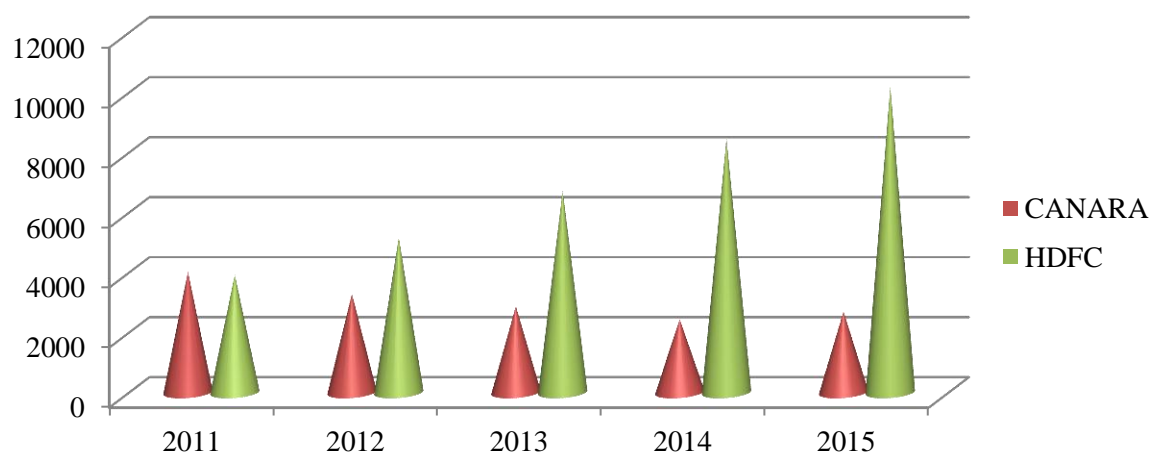**Chart 2**

Interpretation:
The NET NPA of both banks increases on an increasing scale.

Table 3: The Table Showing Five Year Comparison on Net Profit of Canara Bank & HDFC Bank (In Crores)

Year	Net Profit of Canara Bank	Net Profit of HDFC Bank
2011	4025.89	3926.39
2012	3282.72	5167.07
2013	2872.10	6726.28
2014	2438.19	8478.40
2015	2702.63	10215.92

**Source:** Secondary Data

Chart 3

Interpretation

The base year is taken as 2010-11, up to 2014 the NET PROFIT of CANARA BANK decreases on and can see a slight increase in the year 2015.in the case of HDFC BANK the NET PROFIT increases on an increasing scale

Table 4: The Table Showing Five Year Comparison on Total Advance of Canara Bank & HDFC Bank (In Crores)

Year	Total Advance of Canara Bank	Total Advance of HDFC Bank
2011	212467.169	159982.67
2012	232489.81	195420.03
2013	242176.62	239720.64
2014	301067.47	303000.27
2015	330035.51	365495.03

Source: Secondary Data

Chart 4
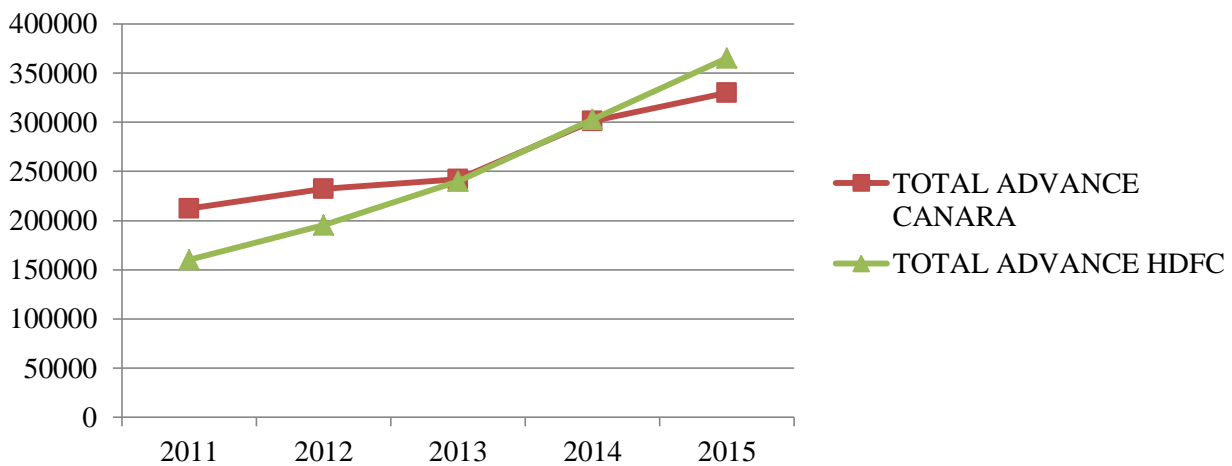
Interpretation:

The TOTAL ADVANCE of both banks increases on an increasing scale.

Correlation Between Net NPA and Net Profit of Canara Bank:

CORRELATION $= \dfrac{n \sum xy - \sum x . \sum y}{\sqrt{n \sum x^2 . (\sum x)^2 - n \sum y^2 . (\sum y)^2}}$

x = NET NPA (in crores)

y = NET PROFIT (in crores)

Year	Net NPA (x) (In Crores)	Net Profit (y) (In Crores)
2011	2347.33	4025.89
2012	3386.31	3282.72
2013	5278.07	2872.10
2014	5965.46	2438.19
2015	8740.09	2702.63

Year	x	y	xy	x2	y2
2011	2347.33	4025.89	9450092	5509958.1	16207790
2012	3386.31	3282.72	11116308	11467095	10776251
2013	5278.07	2872.10	15159145	27858023	8248958
2014	5965.46	2438.19	14544925	35586713	5944770
2015	8740.09	2702.63	23621229	76389173	7304209
Total	**25717.26**	**15321.53**	**73891699**	**156810963**	**48481979**

Correlation = -0.80145

Interpretation:

From the above calculation the NET NPA and NET PROFIT of CANARA bank are negatively correlated, so the non performing assets are lesser. By this we can interpret that the repayment of debt by the customers are more.

Correlation Between Net NPA and Net Profit of HDFC Bank:

$$CORRELATION = \frac{n \sum xy - \sum x . \sum y}{\sqrt{n \sum x^2 . (\sum x)^2 - n \sum y^2 . (\sum y)^2}}$$

x = NET NPA (in crores)
y = NET PROFIT (in crores)

Year	Net NPA (x) (In Crores)	Net Profit (y) (In Crores)
2011	296.41	3926.39
2012	352.33	5167.07
2013	468.95	6726.28
2014	820.03	8478.40
2015	896.28	10215.92

Year	x	y	xy	X2	Y2
2011	296.41	3926.39	1163821	87858.89	15416538
2012	352.33	5167.07	1820514	124136.4	26698612
2013	468.95	6726.28	3154289	219914.1	45242843
2014	820.03	8478.40	6952542	672449.2	71883267
2015	896.28	10215.92	9156325	803317.8	104365021
Total	**2834**	**34514.06**	**22247491**	**1907676**	**263606281**

Correlation = 0.971162

Interpretation:

From the above calculation the NET NPA and NET PROFIT of HDFC bank are positively correlated, so the non performing assets are more. By this we can interpret that the repayment of debt by the customers are less.

FINDINGS:

- It was found that there is an increase of 29% in the GROSS NPA of CANARA bank during 2011-2015.
- The NET NPA of CANARA bank showed an increase of 25% during 2011-2015.
- It was found that NET PROFIT of CANARA BANK in 2011 was 26% it decreased to 21% in 2012 and 19% in 2013, and 16% in 2014, but in 2015 NET PROFIT increased to 18%.
- It was found that there is an increase of 11% in the TOTAL ADVANCE of CANARA bank during 2011-2015.
- The GROSS NPA of HDFC bank showed an increase of 25% during 2011-2015.
- It was found that there is an increase of 22% in the NET NPA of HDFC bank during 2011-2015.
- The NET PROFIT of HDFC bank increases on an increasing scale, it showed an increase of 19% during 2011-2015.
- The TOTAL ADVANCE OF HDFC bank increases on an increasing scale. It showed an increase of 16% during 2011-2015.
- It is found that the GROSSS NPA, NET NPA, TOTAL ADVANCE of both banks increases on an increasing scale.
- The NET PROFIT of CANARA bank decreases on till the year 2014 and in 2015 we can see an increase in the NET PROFIT. The NETPROFIT of HDFC bank increases on an increasing scale.
- While correlating the factors such as, NET NPA and NET PROFIT of both banks, it was found that, CANARA bank have lesser NPA compared to that of HDFC BANK.
- The repayment of debt by the customer is lesser in case of HDFC bank, compared to CANARA bank.
- Based on the observations obtained from the survey and non informal interviews it can be said that, higher NPA is a result of diversion of funds, deficiency in the credit appraisal standards and lack of supervision etc.

SUGGESTIONS:

- The HDFC bank should take corrective measures to control NPA.
- Good customer selection procedure must be followed by both banks.
- Borrower's education periodical inspection of Units and sympathetic consideration of genuine problems of the borrowers will help banks in making better loan Recovery.
- Meetings must be conducted with the NPA borrowers to know about the reasons for the default.
- Complexities of documentation and operational features of Indian
- A new pattern should be adopted, but they must be integrated with the old one.
- "Prevention is better than cure" or "A stitch in time saves nine", holds better in the credit portfolio monitoring and procuring fresh growth of NPAs as well. So besides recovery of NPA, the banks focus should be containment of NPA
- The following should be considered by the Bank Management to reduce NPA:
  - ✓ Credit Audit must be done to prevent NPA.
  - ✓ Potential NPA'S must be identified.
  - ✓ Reporting of the problems relating to loan must be done.
  - ✓ Effective credit monitoring should be done.
  - ✓ Recovery system must be made effective.
  - ✓ Employees should maintain good relation with borrowers.

CONCLUSION:

The study is to have a comparative analysis on NPA of CANARA bank and HDFC bank. Detailed analysis was made from the data collected through primary and secondary means and the type of inference were drawn in findings and suggestions are given.

On the basis of the study conducted, it is proved that in the year 2011-2015 the HDFC bank have higher debt compared to CANARA bank. While analyzing the relationship between NET NPA and NET PROFIT of both banks it is proved that correlation between NET NPA and NET PROFIT of CANARA BANK is negative that means the repayment habit of the customers are more and this bank have lesser debt. But in the case of HDFC BANK the correlation between NET NPA and NET PROFIT is positive which means this bank have higher debt so, we can conclude that while comparing the NPA of both banks, the HDFC BANK have higher debt. Corrective measures should be taken to control it as the old phrase proves "Prevention Is Better than Cure".

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