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Comparative Analysis of Non-Performing Assets Between Canara and Public Sector Banks in India

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Abstract: *Non-Performing Assets (NPAs) represent a major challenge for financial institutions, particularly public sector banks (PSBs) in India. This study undertakes a comparative analysis between Canara Bank and other PSBs to assess trends, impacts, and management practices related to NPAs. The study explores factors leading to the rise of NPAs and their financial impact on profitability and liquidity. Through a literature review, data analysis, and hypothesis testing, this research identifies challenges and offers recommendations for improving NPA management practices in India's banking sector. The findings highlight the need for robust credit risk management and improved regulatory interventions.*

Keywords: Non-Performing Assets, Public Sector Banks, Credit Risk Management, Indian Banking Sector

I. INTRODUCTION

Non-Performing Assets (NPAs) pose a significant challenge for Indian public sector banks, affecting their financial stability and profitability. Among these banks, Canara Bank has experienced a notable rise in NPAs, prompting a need for a comparative analysis with other Public Sector Banks (PSBs). This study aims to delve into the trends of NPAs, their financial impacts, and the variations in NPA management strategies across different PSBs. By examining these aspects, the research seeks to uncover the underlying causes of NPAs and their implications on the banking sector.The analysis will focus on identifying patterns and differences in NPA management between Canara Bank and other PSBs, providing insights into effective strategies for mitigating NPAs. Understanding these trends is crucial for developing robust NPA management practices that can enhance the long-term sustainability and profitability of the Indian banking sector. This comparative study will contribute to the broader discourse on financial stability and the role of efficient NPA management in maintaining the health of public sector banks in India.

II. REVIEW OF LITERATURE

- **Dr. Charan Singh and Reetu Agrawal (2016):** This study focuses on the difference in NPA levels between public and private sector banks, attributing higher NPAs in public sector banks to governance issues and inadequate risk management.
- **Dr. V. Srinivasaragavan and Dr. S. Madhumathi (2018):** This research contrasts NPA trends and provisioning norms, finding that PSBs often face higher NPAs due to weaker credit risk management practices.
- **Dr. R. K. Uppal and Dr. Harleen Kaur (2020):** This detailed analysis tracks NPAs over a decade, linking high NPAs to economic slowdowns and structural deficiencies in PSBs, while recommending policy interventions like the Insolvency and Bankruptcy Code (IBC).
- **Dr. R. Balasubramaniam and Dr. S. Suresh Kumar (2019):** This study compares NPAs pre- and post-asset quality review (AQR), assessing regulatory measures in reducing bad loans.
- **Dr. Amit Gupta and Dr. Kavita Wadhwa (2022):** This research evaluates the impact of COVID-19 on NPAs in PSBs and examines how moratorium schemes and restructuring efforts have affected NPA management.

Statement of the Problem:

TherisinglevelsofNon-PerformingAssets(NPAs)inthepublicsectorbanksofIndiahavebeenthemajorconcern for the financial stability and economic growth of the country. NPAs, which are loans / advances that have stopped generating income for banks, pose significant risks by affecting profitability, liquidity, and overall financial health. This study aims to conduct a comparative analysis of NPAs in Indian public sector banks to understand their trends, patterns, and underlying causes.

Research Gap:

Although much research has been conducted on NPAs, few studies have analyzed the post-COVID-19 implications on NPAs or the effectiveness of regulatory measures such as the Insolvency and Bankruptcy Code. Additionally, the role of digital technologies in NPA management is underexplored.

Objectives of the Study:

- To compare NPA management practices in Canara Bank with other PSBs.
- To assess the financial Impact
- To identify the causes and challenges

III. RESEARCH METHODOLOGY

This study uses secondary data sources, including RBI reports, academic research, and financial statements. A comparative analysis is conducted between Canara Bank and other PSBs, focusing on trends in NPA levels and management practices.

Sampling:

Data from 12 public sector banks in India, including Canara Bank, are analyzed over the period of 2022–2024, using complete enumeration sampling for comprehensive analysis.

Hypothesis:

H1: Significant differences exist in NPA management practices between Canara Bank and other PSBs.

IV. DATA ANALYSIS AND HYPOTHESIS TESTING:

The data revealed that Canara Bank consistently exhibited lower NPAs compared to other PSBs, highlighting better risk management practices.

Table 1: Table showing the assets of Canara Bank

Years	Standard Asset Ratio	Sub- Standard Asset Ratio	Doubt full Asset Ratio	Loss Asset Ratio
2024	95.77	0.96	1.88	1.37
2023	94.64	1.00	2.69	1.65
2022	92.49	1.23	4.70	1.57

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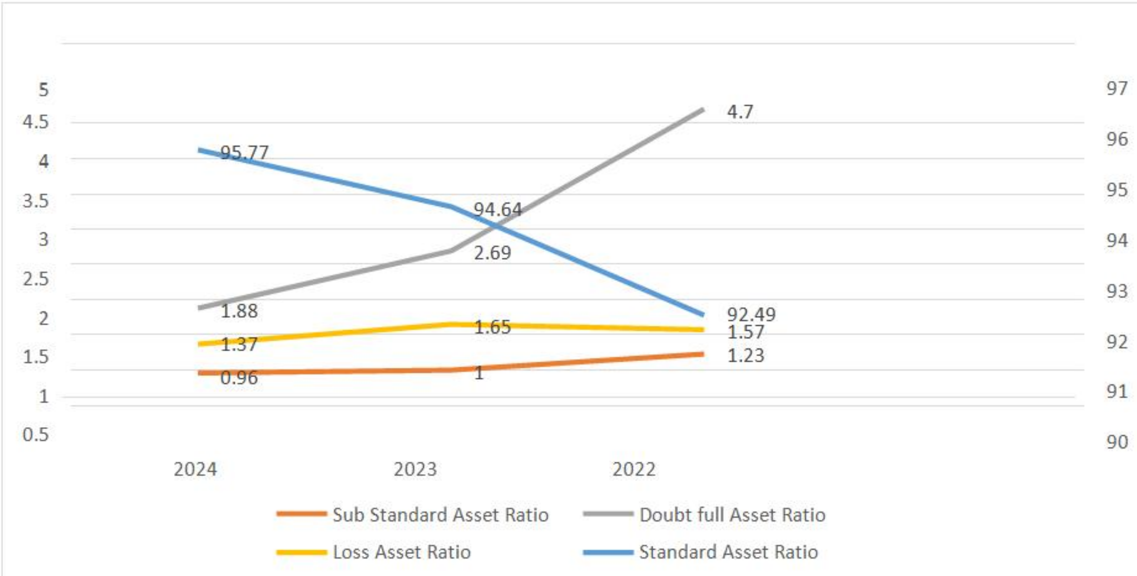

Table 2: Table showing the assets of Other PSB's (Excluding Canara)

Years	Standard Asset ratio	Sub- Standard Asset Ratio	Doubt full Asset Ratio	Loss Asset Ratio
2024	88.08	0.63	2.19	0.94
2023	85.88	0.93	3.46	1.67
2022	83.28	1.33	5.99	1.80

Interpretation

The analysis of asset quality ratios for the three banks provides valuable insights into their financial stability and risk profiles. The Standard Asset Ratio- (SAR), with a mean of 94.30%, indicates strong asset quality, bolstered by a narrow

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range from 92.49% to 95.77%. A low standard deviation of 1.67 suggests that these banks consistently maintain high-quality assets, reflecting a solid financial position. In terms of the sub standard Asset Ratio- (SSAR), the mean is notably low at 1.06%, with values spanning from 0.96% to 1.23%. The minimal variability, as evidenced by a standard deviation of 0.15, implies that these banks have a small percentage of assets classified as substandard, which is a positive indicator of their asset quality. Conversely, the Doubtful Asset Ratio- (DAR) exhibits greater variability, with a mean of 3.09% and a wider range from 1.88% to 4.70%. The higher standard deviation of 1.45 suggests that while some banks manage to keep their levels of doubtful assets low, others show significantly higher proportions. This variability raises potential concerns about credit risk, underscoring the need for closer examination of certain institutions. Lastly, the Loss Asset Ratio- (LAR) is relatively low, averaging 1.53% and ranging from 1.37% to 1.65%. The low standard deviation of 0.14 indicates stability and minimal losses among the banks in this dataset, further reinforcing their overall financial soundness.

Hypothesis:

Asset Ratio	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Standard Asset Ratio	3	87.97	93.46	90.6567	2.74686
Sub Standard Asset Ratio	3	1.07	2.27	1.5833	0.61489
Doubtful Asset Ratio	3	3.71	7.26	5.7233	1.82237
Loss Asset Ratio	3	1.75	2.49	2.0300	0.40150
Valid N (listwise)	3				

H1: Significant differences exist in NPA management practices between Canara Bank and other PSBs.

Asset Ratio	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Standard Asset Ratio	3	92.49	95.77	94.3000	1.66622
Sub Standard Asset Ratio	3	0.96	1.23	1.0633	0.14572
Doubtful Asset Ratio	3	1.88	4.70	3.0900	1.45193
Loss Asset Ratio	3	1.37	1.65	1.5300	0.14422
Valid N (listwise)	**3**				

Interpretation

The analysis of the asset quality ratios for the three banks reveals a concerning trend in their financial health. The Standard Asset Ratio- (SAR) has a mean of 90.66%, indicating a potential decline in asset quality compared to the previous dataset. The increased standard deviation of 2.75 suggests greater variability among the banks, implying that their capacity to maintain high-quality assets may differ significantly. The Sub Standard Asset Ratio - (SSAR) has risen to a mean of 1.58%, with a range of 1.07% to 2.27%. This slight increase in substandard assets indicates a shift towards a higher proportion being classified as such, although the moderate standard deviation of 0.62 suggests that some banks are still managing their substandard assets effectively. The Doubtful Asset Ratio -(DAR) has increased significantly to a mean of 5.72%, ranging from 3.71% to 7.26%. This rise is alarming, as it reflects a concerning escalation in doubtful assets. The high standard deviation of 1.82 indicates substantial variability, with certain banks facing significantly higher risks than their counterparts. Finally, the Loss Asset Ratio- (LAR) has also seen a modest increase, averaging 2.03% with a range of 1.75% to 2.49%. Although the low standard deviation of 0.40 indicates limited variability, the overall rise suggests a slight increase in asset losses among the banks.

V. FINDINGS

Canara Bank showed a higher Provision Coverage Ratio than other PSBs, indicating better preparedness for potential losses.

- NPAs declined across most PSBs post-COVID-19 due to government interventions like the IBC.

- A negative correlation exists between capital adequacy and NPAs, meaning better-capitalized banks have lower NPA levels.
- Canara Bank has more robust NPA management practices compared to its peers.

VI. SUGGESTION

- Enhance credit risk assessment mechanisms to avoid high-risk lending, especially in sectors prone to defaults.
- Implement more advanced data analytics and digital technologies to improve early detection of loan defaults.
- Strengthen regulatory oversight and encourage more rigorous implementation of the Insolvency and Bankruptcy Code (IBC) to resolve stressed assets quickly.

VII. CONCLUSION

The public sector banking sector is a critical pillar of the nation's financial system, playing a key role in economic development and financial inclusion. Despite their prominence, Public Sector Banks (PSBs) face ongoing challenges, particularly with Non-Performing Assets (NPAs). These challenges are exacerbated by corporate defaults, inadequate credit risk assessment, and political interference, leading to rising NPAs that negatively affect profitability and financial stability The study finds that the high levels of NPAs across PSBs have led to increased provisioning, thereby reducing income from interest payments and straining their financial health. However, Canara Bank stands out for more effective NPA management, as reflected by its higher Provision Coverage Ratio and better recovery mechanisms. The banks with stronger capital reserves and sound risk management, like Canara Bank, are better equipped to handle NPAs, though the correlation- between capital adequacy and NPAs is not statistically significant due to the small sample size. The importance of regulatory frameworks such as the Insolvency and Bankruptcy Code (IBC) and Asset Reconstruction Companies (ARCs) is emphasized, as they are addressing NPA challenges and maintaining the stability of banking sector.

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