



## PERFORMANCE OF ODISHA'S PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS: A COMPARATIVE STUDY

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### ABSTRACT

*The Banking Sector Reforms were initiated in India as part of the overall structured reforms aimed at improving the productivity and efficiency of the economy. Odisha, one of the less developed states in India is situated in the southeast of India. The state is endowed with a vast area under forest, a long coastline and rich mineral deposits. The state has been struggling hard to achieve economic prosperity through its various plans and programmes. Agriculture is the mainstay of Odisha's economy and substance of the life of the people. At the same time efforts are being made to transform Odisha in to a vibrant industrialized state. The study about my state Odisha examines trend of NPAs, deposit mobilization, lending and overdue. The data has been analyzed by percentage method. The study is based on the secondary data retrieved from State Level Banking Committee. Private Sector Banks in Odisha has performed well in respect of reducing NPA during the period in 2002 to 2009. Private banks were not interested to open branches in Odisha. The reason is in an agricultural dominated area the people had hardly any surplus to deposit in banks. There has been a constant increase in total deposits of both Public and Private Sector Banks in Odisha, but the rate of increase is found to be more in urban areas. Although Private Sector Banks do not show uniform performance in respect of recovery of loans in every year but it has performed well in reducing NPA during this period.*

**KEYWORDS:** Bank, Finance, Npa, Odisha, Mobilization, Overdue.

## 1. INTRODUCTION

It is needless to say that strong banking sector is important for a flourishing economy. The Indian banking system, which was operating in a closed economy, now faces the challenges of an open economy. Non-Performing Assets (NPA) has emerged since over a decade as an alarming threat to the banking industry in our country sending disturbing signals on the sustainability and endurability of the affected banks. The positive results of the chain of measures taken under banking reforms by the Government of India and RBI in terms of the two Narasimham Committee Reports have been neutralized by the ill effects of this surging threat.

One of the main causes of NPA is the directed loans system under which commercial banks are required to lend a prescribed percentage of their credit (40%) to priority Sectors. As of today nearly 7% of Gross NPA are locked up in 'hard core', doubtful and loss assets, accumulated over the years. Banks are now no longer functioning under the protected environment. Therefore, their very survival depends upon their economic viability.

## 2. LITERATURE REVIEW

Isaac K.Otchere (2005) conducted a study on the performance of privatized banks in middle-and low-income countries shows mixed results by "Competitive and value Effects of Bank Privatization in Developed Countries". The paper observed that private banks in developed countries have experienced significant improvements in operating performance. The improvement in performance remains significant after controlling for persistence in bank performance. A comparison of the performance of privatized banks in developed and developing countries suggests that privatization has encouraged excessive risk taking among privatized banks in developing countries, with the consequence that those banks carry large non-performing assets than their counterparts in the developed countries. They also observe that consistent with the competitive effects hypothesis, investors view privatization announcements as foreshadowing bad news for rival banks.

Dr. Amitabh Joshi (2003) conducted a survey on "Analysis of Non-Performing Assets of IFCL Ltd". The study found that Profitability and Viability of Development Financial Institutions are directly affected by quality and performance of advances. The basic element of Sound NPA Management System is quick identification of Non-performing advances, their containment at minimum levels and ensuring that their impingement on the financials is at low level. Excessive reliance on Collaterals has led Institutions to long drawn litigations and hence it should not be sole criteria for sanction. Banks should manage their exposure limit to few borrower(s) and linkage should be placed with net owned funds for developing control over high leverages of borrower level. Study also revealed that exchange of credit information among banks would be immense help to them to avoid possible NPAs. Management Information system and Market intelligence should be utilized to their full potential.

While the capital adequacy of Indian banks remained robust, there were some emerging concerns with regard to Non-Performing Assets (NPAs). As part of the policy measures adopted to deal with the contagion from the global crisis, the risk weights and provisioning prescriptions had been relaxed in November 2008 as a countercyclical measure. However, in view of large

increase in credit to the Commercial real estate sector and the extent of restructured advances in this sector, the provision required on standard assets in the commercial real estate sector was increased from 0.40 per cent to 1 per cent in November 2009 for building up cushion against likely deterioration in asset quality. It was decided in October 2009 that banks should augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning Coverage Ratio, including floating provisions, is not less than 70 per cent by September 2010. Banks were advised in June 2010 that adequate care should be taken to ensure that the compromise settlements are done in a fair and transparent manner and in full compliance with the RBI guidelines. It was also decided that, henceforth, the officer/authority sanctioning a compromise/one time settlement should append a certificate stating that the compromise settlements are in conformity with the Reserve Bank guidelines.

Bercoff et al (2002) examines the fragility of the Argentinean Banking system over the 1993-1996 period ; they argue that non-performing loans (NPLs) are affected by both bank specific factors and macroeconomic factors.

Petya Koeva (July 2003), in his study on the performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behavior and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

### **3. OBJECTIVES OF THE STUDY**

- (i) To study comparison between Public Sector Banks and Private Sector Banks Deposit Mobilization.
- (ii) To analyze the comparison of lending by Public Sector Banks and Private Sector Banks.
- (iii) To examine the trend of NPA of Public Sector Banks and Private Sector Banks.
- (iv) To determine the percentage of overdue of Public Sector Banks and Private Sector Banks.

### **4. METHODOLOGY**

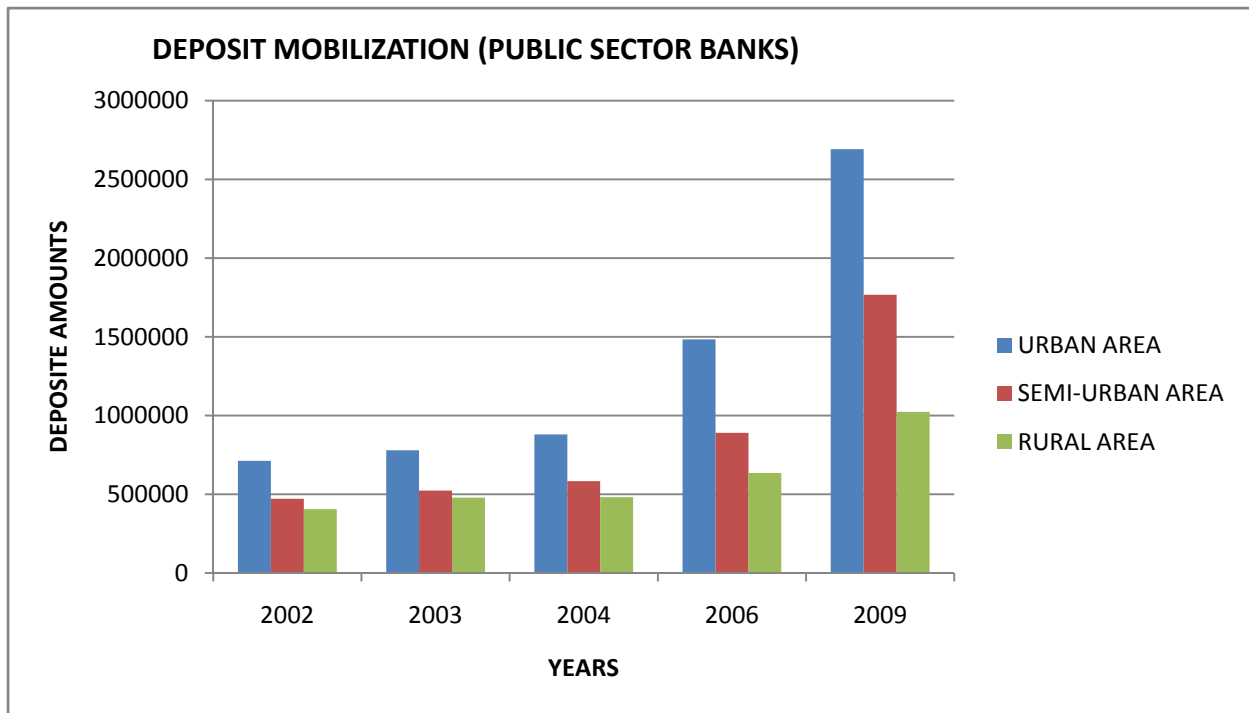
The study is based on the secondary data for the years 2002 to 2009 compiled from State Level Banking Committee Odisha. The scope of the study is limited to five years data. The data has been analyzed using percentage method. The study is related to Public Sector Banks and Private Sector Banks from 2002 to 2009.

#### 4.1. DEPOSIT MOBILIZATION BY PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN ODISHA

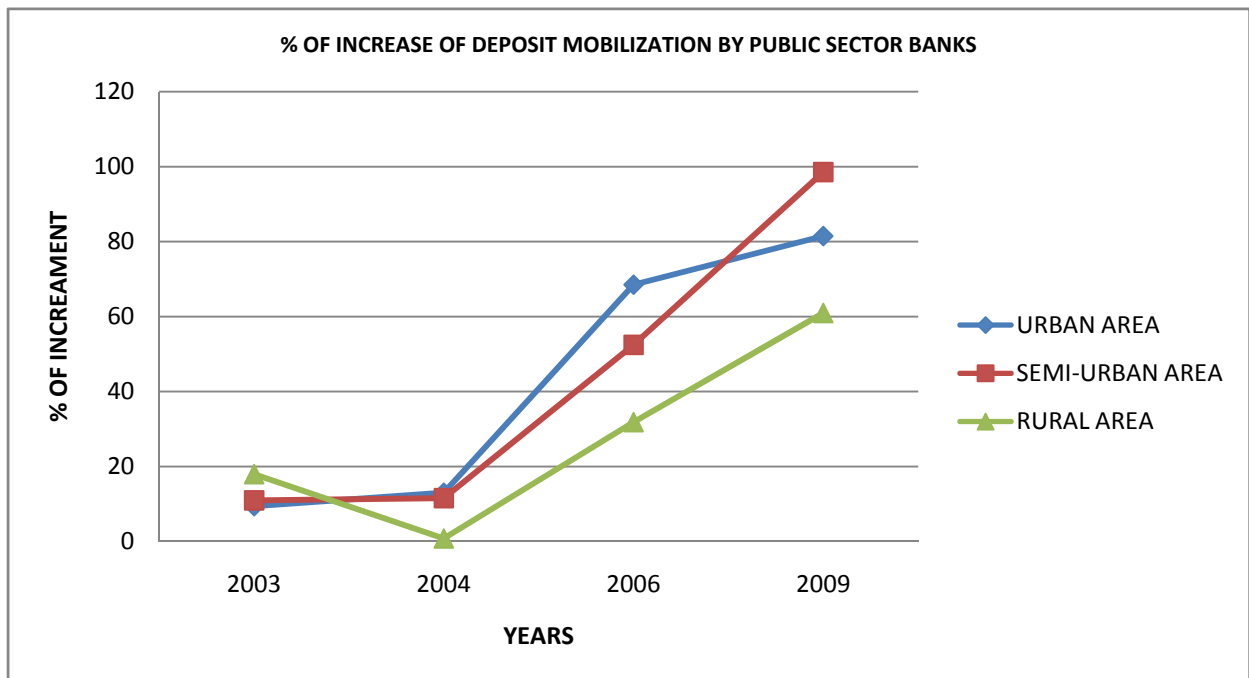
**TABLE NO.1 TOTAL DEPOSIT OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN ODISHA (AMOUNT IN LAKHS)**

Year	Public Sector Banks							Private Sector Banks		
	Urban Area	% Increase	Semi-Urban Area	% Increase	Rural Area	% Increase	Total	% Increase	Total Deposit	% Increase
2002	712081	-	471727	-	405596	-	15894040	-	60692	-
2003	779092	9.41	523317	10.93	478416	17.95	1780825	12	41097	-32.28
2004	880324	13.00	583739	11.54	482147	0.77	1946210	9.28	95366	132
2006	1483258.80	68.49	889902.64	52.44	635580.40	31.82	3008741.6	54.59	252241.44	164.49
2009	2691746.50	81.47	1767054.00	98.56	1022929.90	60.94	5481731.0	82.19	639003.11	153.32

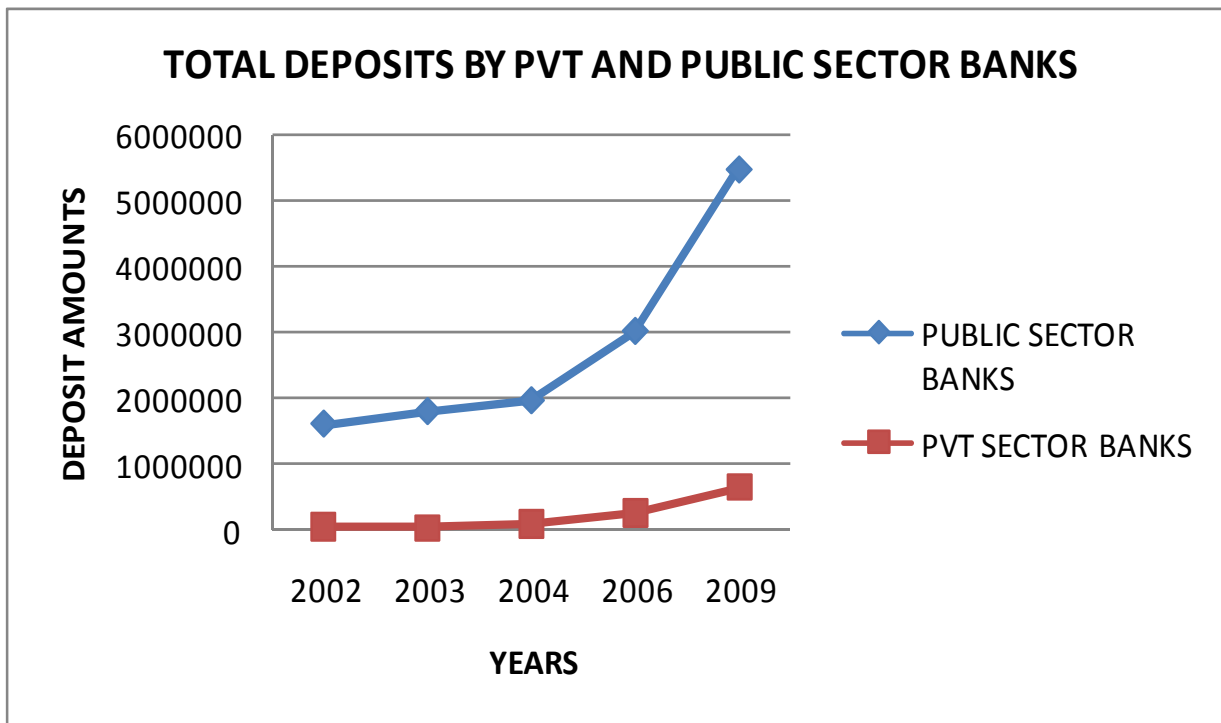
Source: State Level Bankers Committee (Odisha) from 2002 to 2009



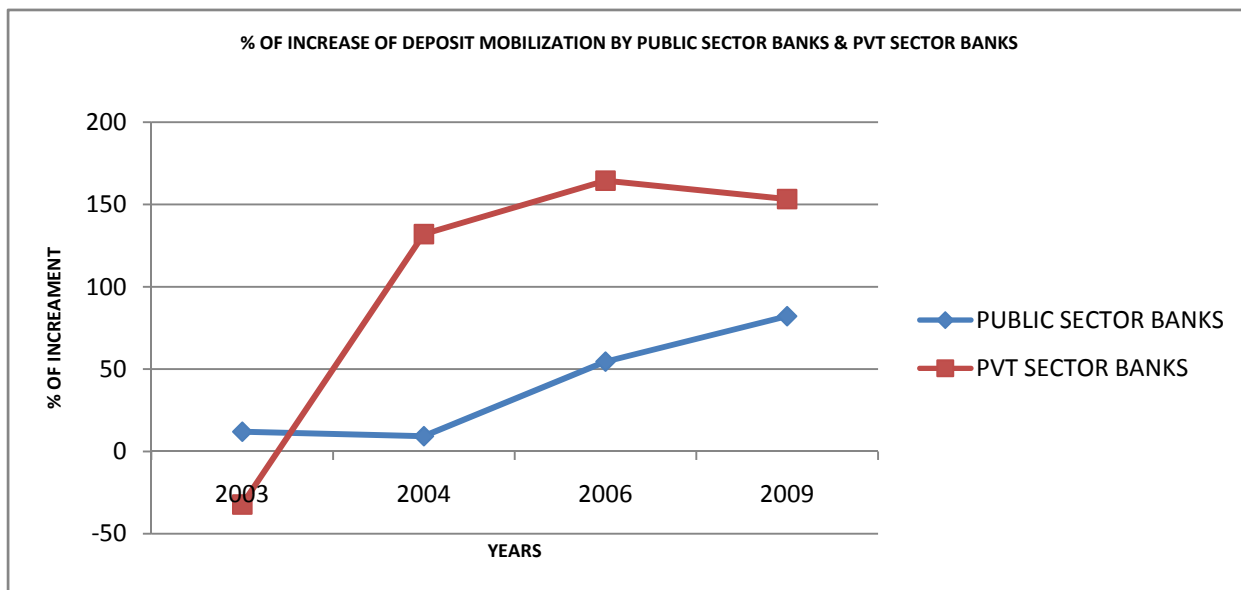
**FIG-1. DEPOSIT MOBILIZATION IN PUBLIC SECTOR BANKS**



**FIG-2: PERCENTAGE OF INCREASE OF DEPOSIT MOBILIZATION IN PUBLIC SECTOR BANKS**



**FIG-3: TOTAL DEPOSITS BY PVT AND PUBLIC SECTOR BANKS**



**FIG-4: PERCENTAGE OF INCREASE OF DEPOSIT MOBILIZATION BY PUBLIC SECTOR BANKS AND PVT SECTOR BANKS**

The rate of deposit mobilization by Public Sector Banks in urban area is found to be highest followed by semi-urban & rural areas. The performance of Private Sector Banks in mobilizing deposit is found to be disappointing during 2003. Their performance was, however, improved substantially from 2004. During one year they could achieve an increase of 132% followed by an increase of 164.49% during the subsequent two years and within a period of three years between 2006 & 2009 they could increase the deposit at a record rate of 153.32%. But the Private Sector Banks were found to be located in urban area and not a single branch was established in rural and semi-urban area till 2009.

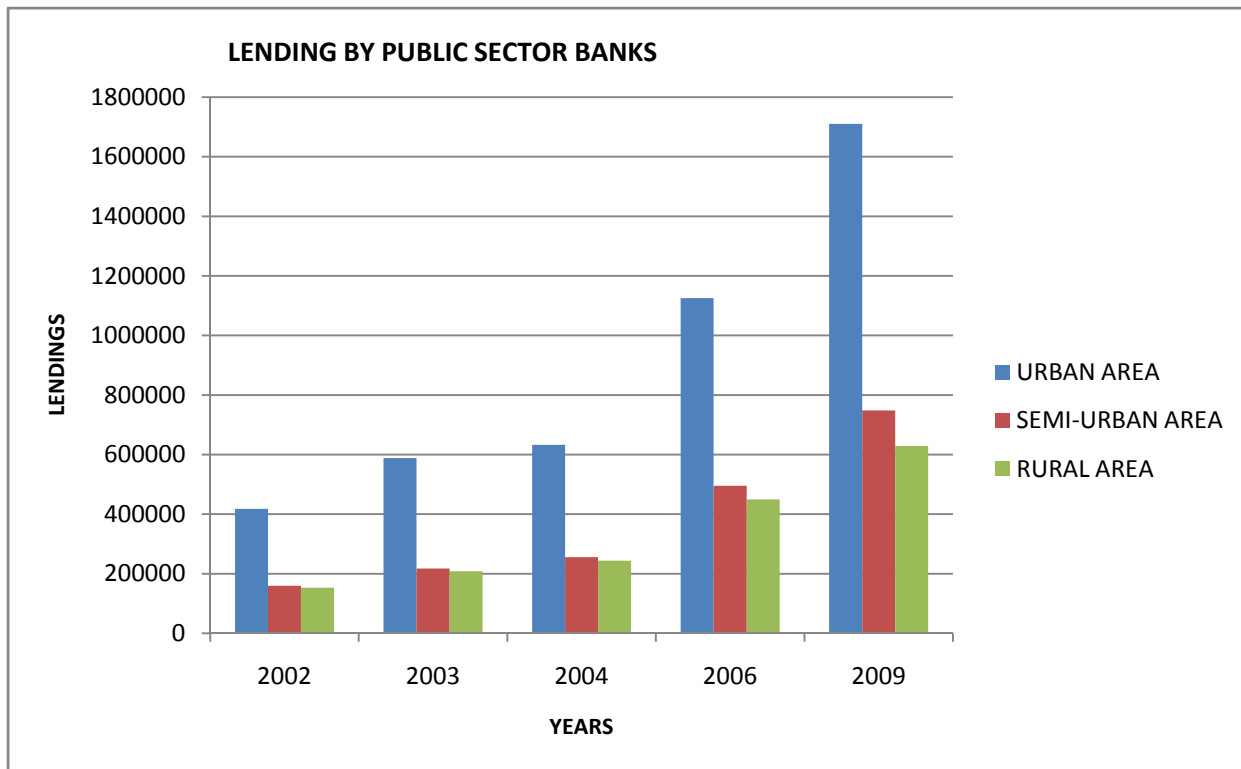
In urban areas the Private Sector Banks successfully compete with Public Sector Banks and they have been successful in attracting depositors by offering prompt services and better customer care than the Public Sector Banks.

#### 4.2. LENDING BY PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN ODISHA

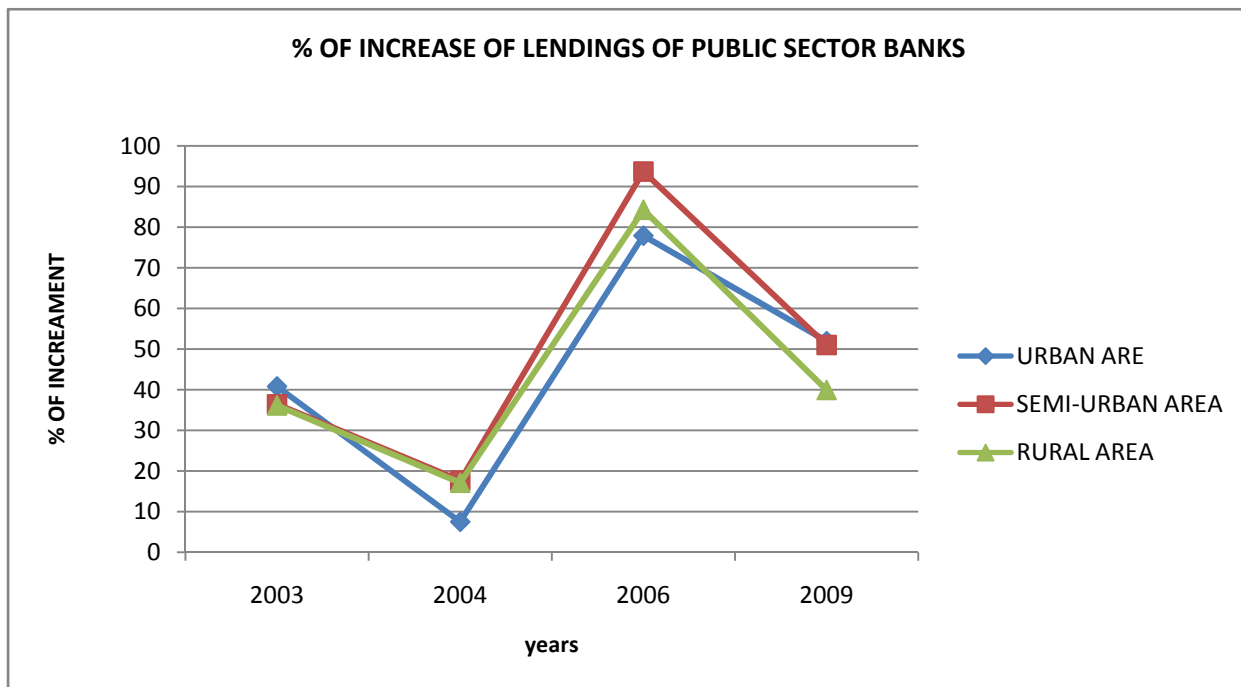
**TABLE 2. TOTAL ADVANCE OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN ODISHA**

Year	Public Sector Banks								Private	Sector
	Urban Area	% Increase	Semi-Urban Area	% Increase	Rural Area	% Increase	Total	% Increase	Banks	Banks
2002	417866	-	159326	-	152905	-	730097	-	4078	-
2003	588450	40.82	217361	36.42	208176	36.14	1013987	38.88	11949	193
2004	632548	7.49	255746	17.65	243793	17.10	1132087	11.64	33752	182.46
2006	1125452.20	77.92	495345.84	93.68	449332.70	84.30	2070130.84	82.85	294416	772.29
2009	1710140.40	51.95	748431.93	51.00	628800.50	39.94	3087372.93	49.13	340188.00	15.54

Source: State Level Bankers Committee (Odisha) from 2002 to 2009

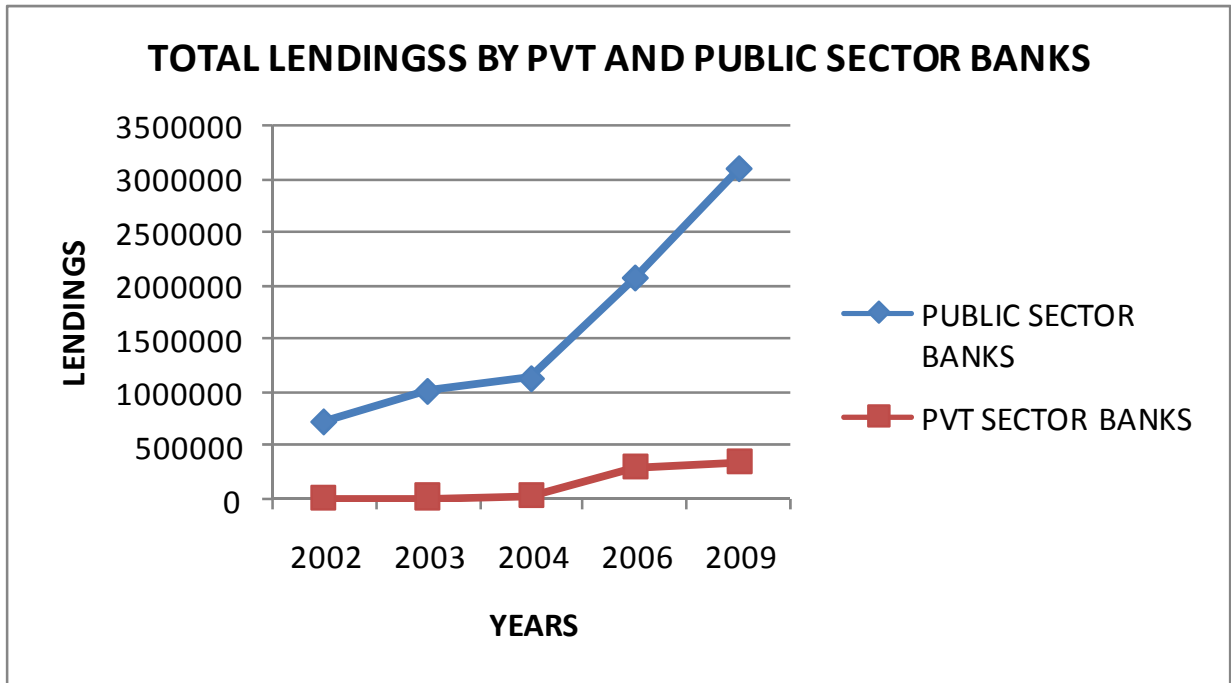


**FIG-5 LENDING BY PUBLIC SECTOR BANKS**

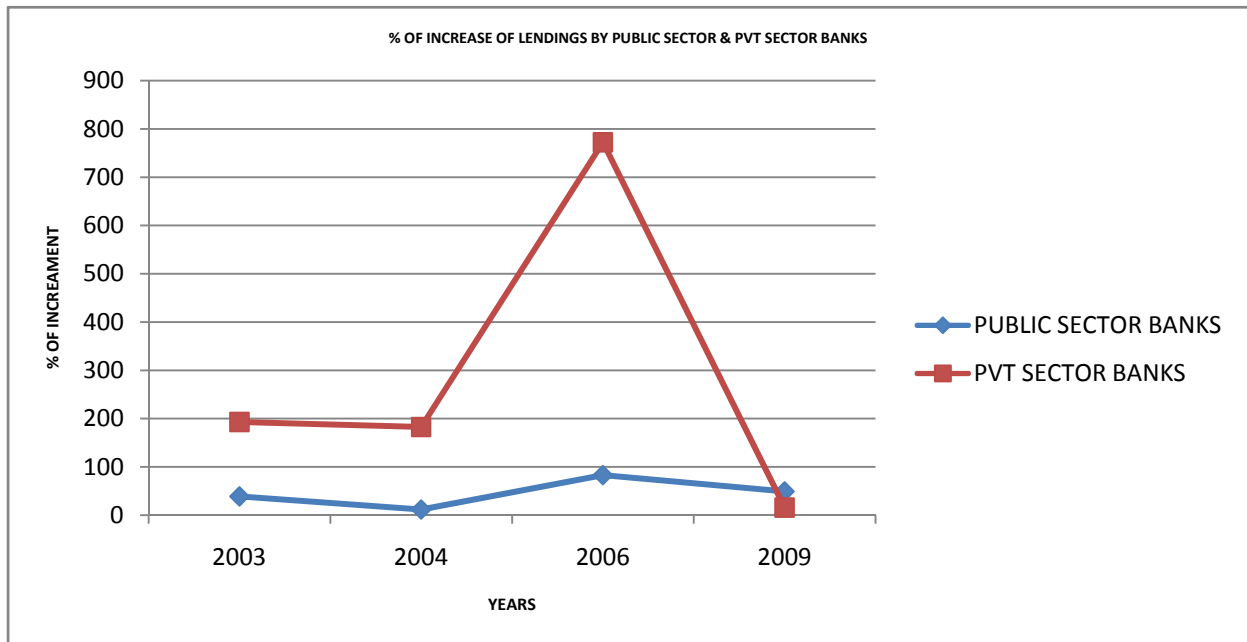


**FIG-6 PERCENTAGE INCREASE OF LENDINGS OF PUBLIC SECTOR BANKS**





**FIG-7 TOTAL LENDINGSS BY PVT AND PUBLIC SECTOR BANKS**



**FIG-8 PERCENTAGE OF INCREASE OF LENDINGSS BY PUBLIC SECTOR AND PVT SECTOR BANKS**

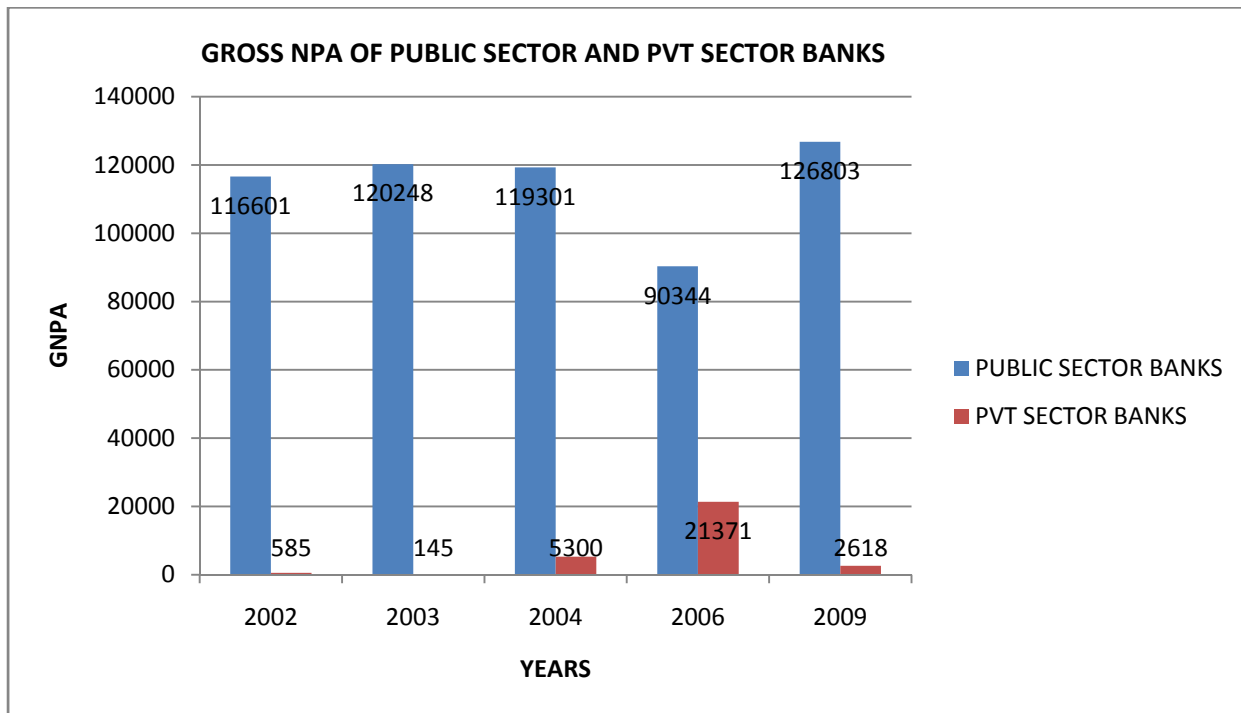
Lending activities of Public Sector Banks show a varying trend in the three areas. But in absolute term maximum of amount has been disbursed in urban area followed by semi-urban and rural areas. The statutory provision of lending to priority sector have compelled the Commercial Banks to advance loans in rural areas. Private Sector Banks have been able to advance a sizeable amount with in last eight years as depicted in the table 2. An increasing trend is observed in their lending activities. But on close scrutiny of the lending activities of some of the leading Private Sector Banks it was revealed that had not granted any loan for small & micro business. The advances were made mostly to big business houses, owners of health care centres, builders and technocrats.

#### 4.3 GROSS NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANK

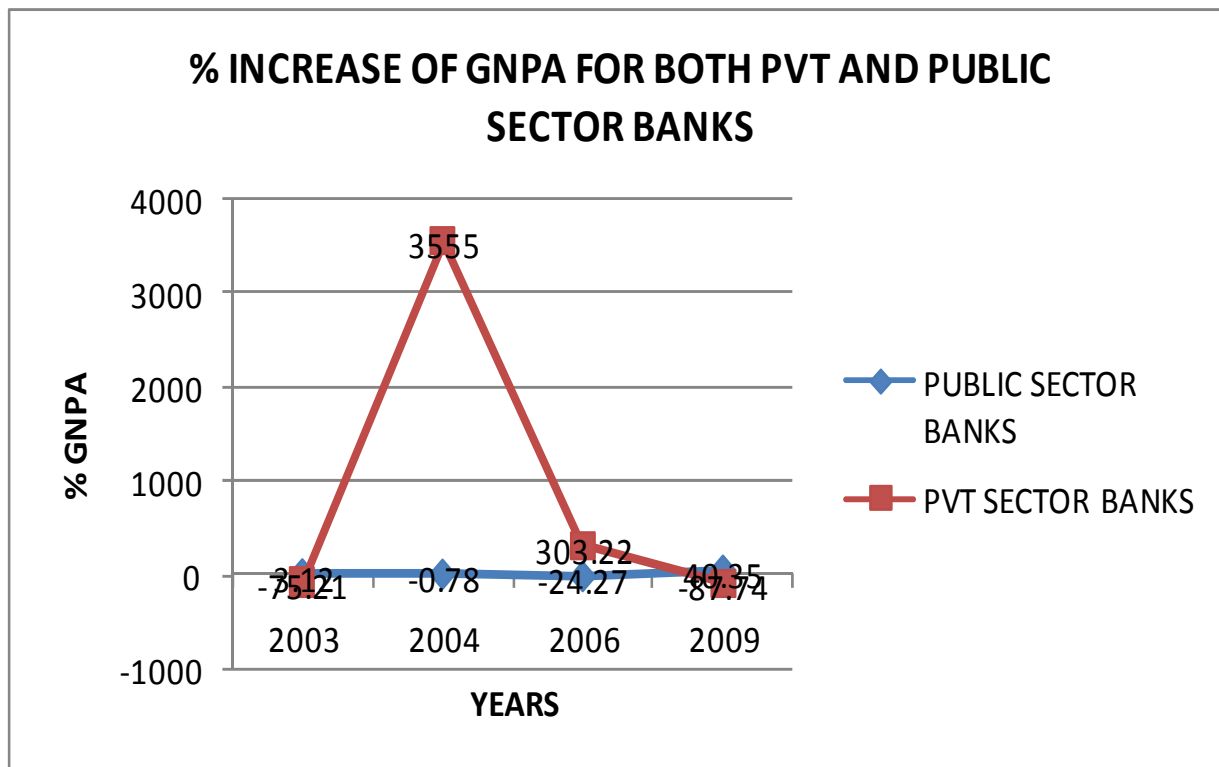
**TABLE 3 GROSS NPA OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS**

<b>(Amount in Lakhs)</b>				
<b>Year</b>	<b>Gross NPA of Public Sector Banks</b>		<b>Gross NPA of Private Sector Banks</b>	
		<b>% increase</b>		<b>% increase</b>
2002	116601	-	585	-
2003	120248	3.12	145	-75.21
2004	119301	-0.78	5300	3555.00
2006	90344	-24.27	21371	303.22
2009	126803	40.35	2618	-87.74

Source : State Level Bankers Committee (Odisha) from 2002 to 2009



**FIG 9 GROSS NPA OF PUBLIC SECTOR AND PVT SECTOR BANKS**



**FIG 10 PERCENTAGE INCREASE OF GNPA FOR BOTH PVT AND PUBLIC SECTOR BANKS**

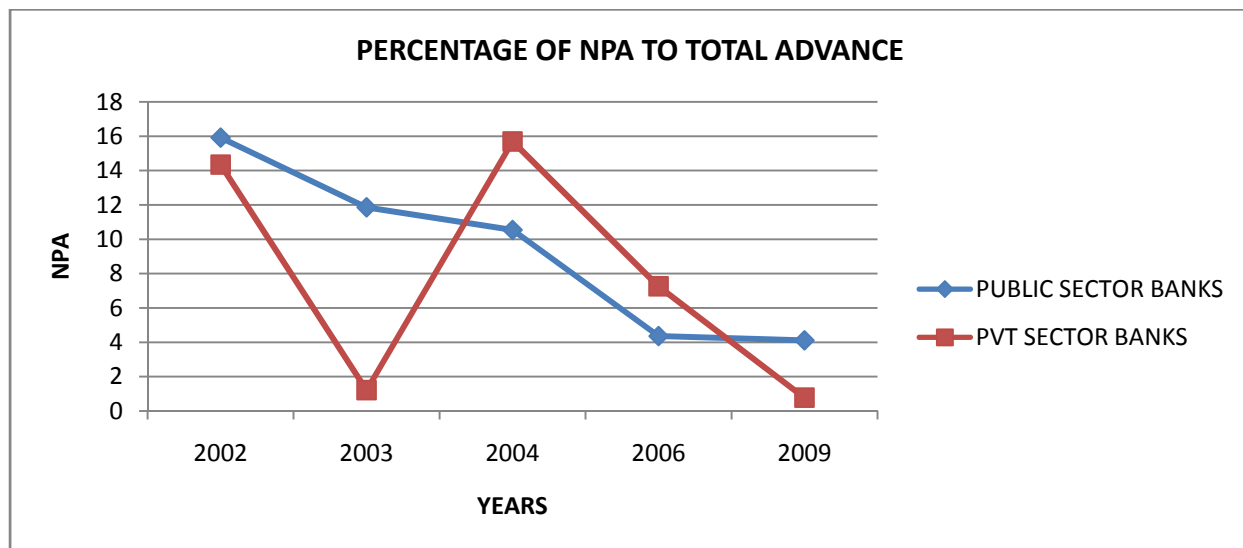
It is evident from the above table that the performance of Private Sector Banks is much better than that of Public Sector Banks in checking NPA. But a close look at the problem reveals the fact that most of the NPA arise out of lending under Government schemes which the Public Sector Banks subscribe to. Therefore, the growing NPA of Public Sector Banks can not be construed as a failure of the management of Public Sector Banks. However, the declining quantity of NPA in Private Sector Banks bear ample testimony of the facts that administration in Private Sector Banks is streamlined and the management has successfully created an environment for better work culture. During the period for 2003 to 2009 the performance in Private Sector Banks was superb. NPA was reduced by 87.74%. It is a great achievement.

#### 4.4 PERCENTAGE OF NPA TO TOTAL ADVANCE

**TABLE 4 PERCENTAGE OF NPA TO TOTAL ADVANCE OF BOTH PUBLIC SECTOR AND PRIVATE SECTOR BANKS**

<b>Year</b>	<b>% of NPA to Total Advance of Public Sector Bankss</b>	<b>% of NPA to Total Advance of Private Sector Banks</b>
2002	15.92	14.35
2003	11.86	1.21
2004	10.54	15.70
2006	4.36	7.26
2009	4.11	0.77

Source: State Level Bankers Committee (Odisha) from 2002 to 2009



**FIG 11 PERCENTAGE OF NPA TO TOTAL ADVANCE**

The above Table No 4 displays data in respect of % of NPA to total advance in Public Sector Banks and Private Sector Banks. A quick look at the table will reveal that in the year 2002 the Public Sector Banks had 15.92% while Private Sector Banks had 14.35% of % of NPA to total advance.

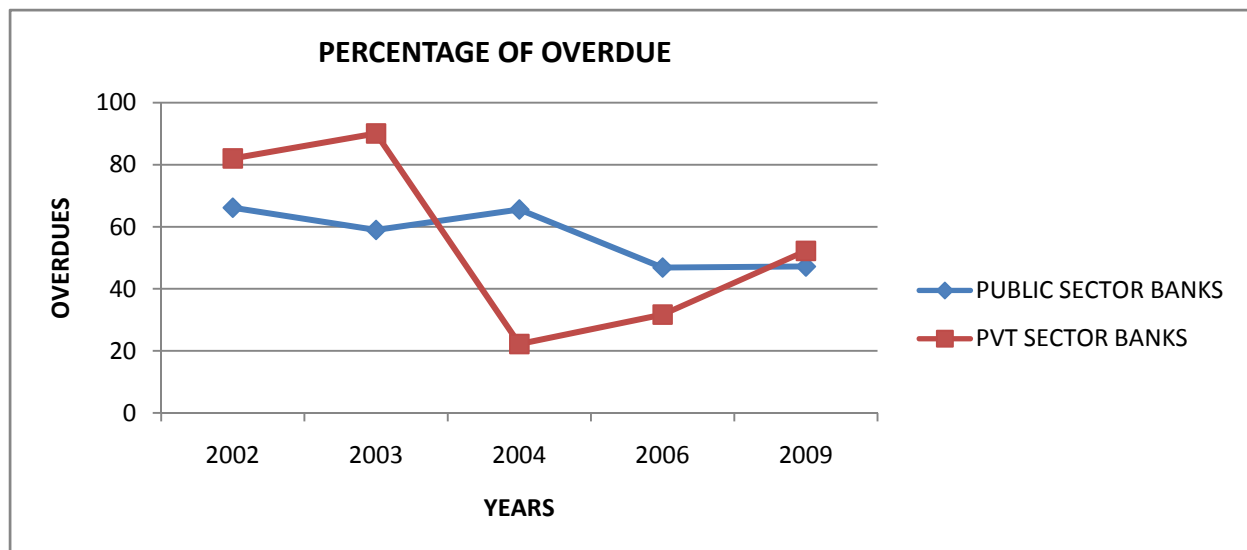
In the subsequent year the Public Sector Banks were able to reduce their % of NPA to total advance to 11.86% as a result of reducing -25.50% over the last year. Private Sector Banks made a drastic decline in there % of NPA to total advance as a result of which it was reduced to 1.21%. From 2004 to 2009 Public Sector Banks % of NPA to total advance continues to fall to reach 4.11% and in Private Sector Banks it was reduced to 0.77%.

#### 4.5 PERCENTAGE OF OVERDUE

**TABLE NO.5 PERCENTAGE OF OVERDUE OF PUBLIC SECTOR & PRIVATE SECTOR BANKS (AGRI. SHORT TERM + AGRI. TERM LOANS + OTHER PRIORITY SECTORS)**

Year	Public Sector Banks	Private Sector Banks
2002	66.15	82.01
2003	58.96	90.07
2004	65.56	22.22
2006	46.84	31.72
2009	47.18	52.21

Source: State Level Bankers Committee (Odisha) from 2002 to 2009



**FIG 12 PERCENTAGE OF OVERDUE**

Overdue of bank loan is a common problem for both Public & Private Sector Banks. It is commonly believed that Private Sector Banks are more cautious in granting loans & therefore the percentage of their overdue is less in comparison with those of Public Sector Banks. But the study reveals the opposite facts. In the matter of overdue, the performance of Public Sector Bank is much better than that of Private Sector Bank. The percentage increase in overdue of Private Sector Banks in 2009 over the last year is alarming. The percentage of overdue of Private Sector Banks shows a greater variation than Public Sector Banks. This is because of aggressive financing policy of Private Sector Banks.

## 5. FINDINGS OF THE STUDY

- i) There has been a constant increase in total deposits of both Public and Private Sector Banks in Odisha. But the rate of increase is found to be more in urban areas.
- ii) Private Sector Banks in Odisha has performed well in respect of reducing NPA during the period in 2002 to 2009.
- iii) Private Sector Banks do not show uniform performance in respect of recovery of loans in every year. Wide variations are observed between the rates of recovery of different years. This is because of their aggressive lending.
- iv) A few banks have shown better performance than others in respect of recovery of loans.

## 6. CONCLUSION

It is high time to take suitable and stringent measures to get rid of NPA problem. Regular follow-up of the funds sanctioned is required to ascertain any mismanagement of funds or

diversion of funds. Asset Reconstruction Company (ARC) should be developed in line with the countries such as Korea, China, Japan, Taiwan etc. which will take away the bad loans of the banks and make its own endeavor for the recovery of the same. Another way to manage the NPAs by the banks is one time settlement scheme and corporate debt restructuring for handling large NPA, with a potential to give long term package of financial and management restructuring. It rephrases the loan servicing obligation of the borrower and some concession in the interest rate. However, since the percentage of NPA to total advance is less than 5% there is ample scope for utilization of bank deposits for the purpose of poverty alleviation and economic development of the state.

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