

Loan Management in Public Sector Banks and Private Sector Banks in India- A Comparative study

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Abstract

Banking sector is playing a major role in the economic development of a country like India. Loans and advances are the major part in the bank's Balance sheet. Loans of the banks are increasing but recovery of loans is reducing due to several reasons. Hence, a need arises to study the Loan management in the Banking sector in India. The study is conducted from the Loan management perspective with special reference to few Public sector banks and private sector banks in India. The study is confined to four Public sector and four Private sector banks operating in India. The data for the study is collected from secondary Sources like Annual administration reports of the sample banks and Government bulletins. The data regarding Loan management of the sample banks are collected for 6 consecutive years from 2013-14 to 2018-19. Collected data are tabulated and Loan related data are taken into consideration for comparison purpose. Descriptive statistics are applied and findings are drawn based on the result obtained and tested for 5% level of significance (t-Test). Study found that there is no significant difference in Public sector banks and private sector banks in bills purchased and discounted Cash credits, overdrafts and loans repayable on demand as well as term loans types of lending in Public Sector banks and Private sector banks.

Key Words: Loan Management, Public Sector Banks, Private Sector Banks.

1. Introduction

Banking sector is playing a major role in the economic development of a country like India. Loans and advances are the major part in the bank's Balance sheet. Loans in the banks are increasing but recovery of loans is reducing due to several reasons. Hence, a need arises to study the Loan management in the Banking sector in India. The study is conducted from the Loan management perspective with special reference to few Public sector banks and private sector banks in India. The topic of the study is focusing on Loan management in selected Public sector banks and private sector banks in India.

2. Meaning and Concept of Loan

Meaning: A loan is a sum of money that one or more individuals or companies borrow from banks or other financial institutions so as to financially manage planned or unplanned events. The borrower incurs a debt, which he has to pay back with interest and within a given period of time.¹

Types: i). Cash Credit Hypothecation: Under this system, the banker specifies a limit, called the cash credit limit for each customer, up to which the customer is *permitted to borrow* against the security of tangible assets or guarantees. The customer withdraws from his cash credit account as and when he needs the funds and deposit any amount of money which he finds surplus with him on any day.

ii). Overdrafts: When a current account holder is permitted by the banker to draw more than what stands to his credit, such an advance is called an overdraft. The banker may take some collateral security or may grant such advance on the personal security of the borrower. Interest is charged on the exact amount overdrawn by the customer and for the period of its actual utilization.

iii). Loan system: Under the loan system, credit is given for a **definite purpose and for a** pre-determined period. These loans are **repayable in installments**. Funds are required for **single non-repetitive** transactions and are withdrawn only once.

Categories of Loans:

a) Short term loans: These loans are granted to meet the working capital needs of the borrowers. These loans are granted against the security of tangible assets like goods & commodities, shares, debentures etc.

b) Medium and Long term Loans (Term loans): These loans are granted for more than a year and are meant for the purchase of capital assets for the establishment of new units and for expansion or diversification of an existing unit. Such loans constitute a part of the 'project finance' which is raised from different sources. These loans are secured by the tangible assets like land, buildings, plant and machinery etc.

c) Bridge Loans: Bridge loans are short term loans which are granted to industrial undertakings to meet their urgent and essential needs during the period when formalities for availing of the term loans sanctioned by financial institutions are being fulfilled. Maximum period of the bridge loan to be one year.

d) Composite loans: When a loan is granted both for buying capital assets and for working capital purposes it is called composite loan. These loans are usually granted to small borrowers, such as artisans, farmers, small industries etc.

e) Personal loans: Banks are granting retail loans to individuals for various purposes like Education, consumer durables, housing, credit card outstanding, automobile purchases etc. these loans are comes under Personal loans.

iv). Purchase/Discount of bills: Banks may allow bills purchasing/ discounting facility to customer by either purchasing demand bills or discounting usance bills. After purchasing/ discounting bills the banker may send the bill for collection of proceeds from the drawee of the bill and on receipt of proceeds the bills are adjusted.

3. Review of Literature

Cheenu Goel, Chitwan Bhutani Rekhi (2013)² conducted a study which attempts to measure the relative performance of Indian banks. For the study, they used public sector banks and private sector banks. Different proxy indicators are used for measuring productivity of banking sector. Segmentation of the banking sector in India was done on bank assets size. Overall, the analysis supported the conclusion that new banks are more efficient than old ones. The public sector banks are not as profitable as other sectors are. It means that efficiency and profitability are interrelated.

Dr. Saurabh Garg (2014)³ revealed that in the beginning of 1990's, there were so many deficiencies prevailing in the Indian economy, particularly in the financial sector and also in the banking sector. The major deficiencies prevailing in the system were regarding productivity and efficiency, which directly affect profitability. Banking system's profitability has been eroded due to poor productivity and efficiency. Several public sector banks and financial institutions have become weak financially, some public sector banks have been incurring losses year after year, their customer service was poor, their work technology was outdated and they were unable to meet the challenges of a competitive environment.

Reshma Prabhu Verlekar, Dr. Manoj S. Kamat (2019)⁴ revealed that the application of credit risk measurement tools vary from bank to bank. The study is based on the aim, to measure the Credit Risk Management Practices of public and private banks using lending ratios as a credit risk measurement tools. The hypothesis for the present study states that, there is significant difference in the credit risk management practices used by public and private banks in India. The result revealed that, although there is similarity in the trend of certain ratios over the thirteen years period under study, the sector wise comparison showed statistical significant differences between the public and private banks with regards to certain six lending ratios used in the paper.

B M Misra and Sarat Dhal⁵ This study provides an analysis of pro-cyclicality of bank indicators with a focus on the non-performing loans (NPAs) of India's public sector banks. Using panel regression model, the study found that the terms of credit variables such as interest rate, maturity and collateral and bank specific variables had significant effect on the banks' non-performing loans in the presence of macroeconomic shocks. The empirical findings support the policy approach to the banking in the Indian context. The credit culture as reflected in the terms of credit variables could play an important role in the banks' management of business cycle impact on loans and credit risk.

Research Gap: The survey of various literatures authored by various authors emphasis on the comparison of public sector and private sector banks in terms of NPA its factors, solvency etc. Most of the studies concluded that Public sector banks are not performing well compared to Private sector banks in

India. But Comparison of public sector and private sector banks in terms of loan management has not taken much importance. In this study a comparison is made between Public sector banks and private sector banks in terms of their loan management.

4. Statement of the Problem

In India, recovery of loans by banks is reducing day by day due to several reasons. Non Performing Assets in the banking sector is increasing tremendously due to various reasons. So many banks are not following good lending practices. This leads to NPAs. Hence, these banks have to concentrate more on the good loan management practices, for the reduction of their NPAs and increasing their performance.

5. Scope of the Study: The present study is confined to 4 Public sector banks and 4 Private sector banks operating in India only. Those banks are as follows:

Public sector banks:

1. State Bank of India
2. Canara Bank
3. Corporation bank
4. Syndicate bank

Private sector banks:

1. Karnataka Bank
2. IndusInd Bank
3. HDFC Bank
4. AXIS Bank

6. Objectives of the Study

- a) To know the Bills purchased and discounted amount of Public Sector banks and Private sector banks in India
- b) To know the Cash credits, overdrafts and loans repayable on demand of Public Sector banks and Private sector banks in India.
- c) To know the Term loans of Public Sector banks and Private sector banks in India.
- d) To know the Total Advances of Public Sector banks and Private sector banks in India.

7. Hypotheses of the Study

H₀ (1): There is no significant difference in the average of Bills purchased and discounted of Public sector banks and Private Sector banks in India.

H₀ (2): There is no significant difference in the average of Cash credits, overdrafts and loans repayable on demand of Public sector banks and Private Sector banks in India.

H₀ (3): There is no significant difference in the average of Term loans of Public sector banks and Private Sector banks in India.

H₀ (4): There is no significant difference in the average of Total Advances of Public sector banks and Private Sector banks in India.

8. Research Methodology

The data for the study is collected from secondary Sources like Annual administration reports of the sample banks and Government bulletins. Collected data are tabulated and Loan related data are taken into consideration for comparison purpose.

Period of the Study: The data regarding Loan management of the sample banks are collected for 6 consecutive years from 2013-14 to 2018-19. There is no significance in selecting the period except the availability of data consistency.

Plan of Analysis: Descriptive statistics are applied for the data collected. Descriptive statistics consist of numbers, percentages, mean, etc. Statistical inference drawn based on the result obtained and tested for 5% level of significance (t-Test).

9. Data analysis and Interpretation.

Table -1: Bills purchased and discounted

(Rs in Lakhs)

Name of the Banks	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	't' Test
Public Sector							24,63,932	0.439
State Bank of India	77,75,509	95,60,594	94,36,070	73,99,786	67,61,356	80,27,887	81,60,200	
Canara Bank	10,17,254	10,64,489	10,24,551	14,85,779	15,86,347	18,38,379	13,36,133	
Corporation Bank	3,59,103	2,58,013	2,08,055	2,04,558	1,68,016	93,181	2,15,154	
Syndicate Bank	1,36,300	2,74,271	1,34,335	1,51,397	1,01,578	67,561	1,44,240	
Private Sector							8,24,751	
Karnataka Bank	95,820	88,608	81,383	82,855	83,480	59,850	81,999	
IndusInd Bank	2,04,800	1,82,451	86,953	4,03,127	4,33,125	58,737	2,28,199	
HDFC Bank	14,64,691	15,52,183	18,51,369	28,71,596	21,65,921	32,04,387	21,85,025	
AXIS Bank	3,21,290	5,20,377	4,71,072	6,74,966	12,81,313	15,53,670	8,03,781	

Source: Data Collected from the Annual Reports of the Banks

H_0 (1): There is no significant difference in the average Bills purchased and discounted of Public sector banks and Private Sector banks in India.

Interpretation: Regarding the average of Bills purchased and discounted under public sector banks found to be higher in SBI (81,60,200) followed by Canara bank (13,36,133), and Corporation Bank (2,15,154) and least of these is in Syndicate Bank (1,44,240). In private sector banks, highest average Bills purchased and discounted notices under HDFC Bank (21,85,025) followed by AXIS Bank (8,03,781) and IndusInd

Bank (2,28,199) least of these is in Karnataka Bank (81,999). Further, the Bills purchased and discounted found higher in Public sector banks (24,63,932) as compared to Private sector banks (8,24,751).

The data subjected for statistical test reveals that the difference in the average Bills purchased and discounted between public sector banks and private sector banks found to be Non-Significant ($P=0.439$) ($P<0.05$ Significant).

Result: Hypothesis is accepted that there is no significant difference in the average Bills purchased and discounted of Public Sector banks and private sector banks in India.

Table -2: Cash credits, overdrafts and loans repayable on demand (Rs in Lakhs)

Name of the Banks	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	't' Test
Public Sector							2,18,25,424	0.356
State Bank of India	5,22,86,088	5,38,57,640	5,89,44,233	6,05,01,634	7,46,25,238	7,76,63,346	6,29,79,697	
Canara Bank	1,17,08,379	1,30,96,498	1,31,56,649	1,41,18,134	1,63,72,312	1,78,98,936	1,43,91,818	
Corporation Bank	64,11,047	66,45,571	66,37,445	64,12,892	42,30,061	41,61,971	57,49,831	
Syndicate Bank	39,29,408	41,24,605	40,94,471	43,28,673	53,40,276	32,64,659	41,80,349	
Private Sector							75,74,351	
Karnataka Bank	10,76,976	12,15,892	12,80,661	14,85,232	19,48,256	23,67,746	15,62,461	
IndusInd Bank	14,49,674	17,73,499	23,14,495	33,01,006	43,07,706	58,06,683	31,58,844	
HDFC Bank	1,23,27,816	1,44,47,560	1,24,27,741	1,33,61,741	1,68,16,436	2,02,21,423	1,49,33,787	
AXIS Bank	68,84,382	80,41,868	96,55,807	1,04,22,730	1,38,13,416	1,50,35,673	1,06,42,313	

Source: Data Collected from the Annual Reports of the Banks

H_0 (2): There is no significant difference in the average Cash credits, overdrafts and loans repayable on demand of Public sector banks and Private Sector banks in India.

Interpretation: Regarding the average of Cash credits, overdrafts and loans repayable on demand under public sector banks found to be higher in SBI (6,29,79,697) followed by Canara bank (1,43,91,818), and Corporation Bank (57,49,831) and least of these is in Syndicate Bank (41,80,349). In private sector banks, highest average Cash credits, overdrafts and loans repayable on demand notices under HDFC Bank (1,49,33,787) followed by AXIS Bank (1,06,42,313) and IndusInd Bank (31,58,844) least of these is in Karnataka Bank (15,62,461). Further, the Cash credits, overdrafts and loans repayable on demand found higher in Public sector banks (2,18,25,424) as compared to Private sector banks (75,74,351).

The data subjected for statistical test reveals that the difference in the average Cash credits, overdrafts and loans repayable on demand between public sector banks and private sector banks found to be Non-Significant ($P=0.356$) ($P<0.05$ Significant).

Result: Hypothesis is accepted that there is no significant difference in the average Cash credits, overdrafts and loans repayable on demand of Public Sector banks and private sector banks in India.

Table -3: Term loans**(Rs in Lakhs)**

Name of the Banks	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	't' Test
Public Sector							3,30,85,635	0.478
State Bank of India	6,09,21,276	6,65,84,406	7,79,89,738	8,92,06,418	11,21,01,425	13,28,96,459	8,99,49,954	
Canara Bank	1,73,81,114	1,88,42,565	1,82,90,282	1,85,96,963	2,02,11,640	2,30,35,412	1,93,92,996	
Corporation Bank	69,38,480	76,03,019	71,86,724	74,18,230	75,88,807	78,69,969	74,34,205	
Syndicate Bank	1,33,25,533	1,58,73,106	1,59,08,043	1,54,86,865	1,56,26,532	1,71,72,221	1,55,65,383	
Private Sector							1,74,86,655	
Karnataka Bank	16,61,753	18,63,504	20,28,201	21,32,277	26,93,439	30,55,224	22,39,066	
IndusInd Bank	38,55,710	49,22,870	64,40,487	76,03,919	97,54,534	1,27,73,930	75,58,575	
HDFC Bank	1,65,07,521	2,05,49,761	3,21,80,286	3,92,23,483	4,68,50,952	5,85,14,312	3,56,37,719	
AXIS Bank	1,58,01,004	1,95,46,059	2,37,50,494	2,62,09,239	2,88,70,302	3,28,90,455	2,45,11,259	

Source: Data Collected from the Annual Reports of the Banks

H_0 (3): There is no significant difference in the average Term loans of Public sector banks and Private Sector banks in India.

Interpretation: Regarding the average of Term loans under public sector banks found to be higher in SBI (8,99,49,954) followed by Canara bank (1,93,92,996) and Syndicate Bank (1,55,65,383) and least of these is in Corporation Bank (74,34,205). In private sector banks, highest average Term loans notices under HDFC Bank (3,56,37,719) followed by AXIS Bank (2,45,11,259) and IndusInd Bank (75,58,575) least of these is in Karnataka Bank (22,39,066). Further, the Term loans found higher in Public sector banks (3,30,85,

635) as compared to Private sector banks (1,74,86,655).

The data subjected for statistical test reveals that the difference in the average Term loans between public sector banks and private sector banks found to be Non-Significant (**P=0.478**) (**P<0.05 Significant**).

Result: Hypothesis is accepted that there is no significant difference in the average Term loans of Public Sector banks and private sector banks in India.

Table -4: Total Advances

(Rs in Lakhs)

Name of the Banks	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	't' Test
Public Sector							5,73,74,990	0.423
State Bank of India	12,09,82,872	13,00,02,640	14,63,70,042	15,71,07,838	19,34,88,019	21,85,87,692	16,10,89,851	
Canara Bank	3,01,06,748	3,30,03,552	3,24,71,482	3,42,00,876	3,81,70,299	4,27,72,727	3,51,20,947	
Corporation Bank	1,37,08,630	1,45,06,604	1,40,32,224	1,40,35,679	1,19,86,884	1,21,25,121	1,33,99,190	
Syndicate Bank	1,73,91,241	2,02,71,982	2,01,36,849	1,99,66,935	2,10,68,387	2,05,04,440	1,98,89,972	
Private Sector							2,58,85,756	
Karnataka Bank	28,34,549	31,67,999	33,90,245	37,00,365	47,25,175	54,82,820	38,83,526	
IndusInd Bank	55,10,184	68,78,820	88,41,934	1,13,08,051	1,44,95,366	1,86,39,350	1,09,45,618	
HDFC Bank	3,03,00,027	3,65,49,503	4,64,59,396	5,54,56,820	6,58,33,309	8,19,40,122	5,27,56,530	
AXIS Bank	2,30,06,676	2,81,08,303	3,38,77,373	3,73,06,935	4,39,65,031	4,94,79,797	3,59,57,353	

Source: Data Collected from the Annual Reports of the Banks

H_0 (4): There is no significant difference in the average of Total Advances of Public sector banks and Private Sector banks in India.

Interpretation: Regarding the average of Total Advances under public sector banks found to be higher in SBI (16,10,89,851) followed by Canara bank (3,51,20,947), and Syndicate Bank (1,98,89,972) and least of these is in Corporation Bank (1,33,99,190). In private sector banks, highest average Total Advances notices under HDFC Bank (5,27,56,530) followed by AXIS Bank (3,59,57,353) and IndusInd Bank (1,09,45,618) least of these is in Karnataka Bank (38,83,526). Further, the Total Advances found higher in Public sector banks (5,73,74,990) as compared to Private sector banks (2,58,85,756).

The data subjected for statistical test reveals that the difference in the average Total Advances between public sector banks and private sector banks found to be Non-Significant ($P=0.423$) ($P<0.05$ Significant).

Result: Hypothesis is accepted that there is no significant difference in the average Total Advances of Public Sector banks and private sector banks in India.

10. Findings and Suggestions

1. The average Bills purchased and discounted found higher in Public sector banks (24,63,932) as compared to Private sector banks (8,24,751).
2. The average Cash credits, overdrafts and loans repayable on demand found higher in Public sector banks (2,18,25,424) as compared to Private sector banks (75,74,351).
3. The average Term loans found higher in Public sector banks (3,30,85,635) as compared to Private sector banks (1,74,86,655).
4. The average Total advances found higher in Public sector banks (5,73,74,990) as compared to Private sector banks (2,58,85,756).
5. In Public sector banks, only State Bank of India showed highest performance in lending of all the categories of loans. But Corporation bank and syndicate banks lending amount is comparatively less. Public sector banks have to increase their lending in cash credit, bills purchased and discounted than term loans along with good recovery mechanism.
6. In Private sector banks, HDFC bank showed highest performance in all the categories of lending. Karnataka bank and IndusInd bank performance in lending is comparatively less. Private sector banks also have to concentrate on priority sector lending than term loans along with good recovery mechanism.

11. Conclusion.

Both Public sector banks and Private sector banks are playing major role in the economic development of a country. Even though Private sector banks are performing well but their lending capacity is low compared to public sector banks. Private sector banks have to strengthen their lending capacity with good lending margin. Public sector banks also have to concentrate more on the various new ways of lending than tradition lending.

12. References

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