

IMPACT OF NPA ON PROFITABILITY PERFORMANCE OF SELECT PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

A well-built and profitable banking system plays a very important role in the stability of the taken as a whole financial sector system of the country. The issue of the NPA which was unnoticed till recently, has been given moving consideration after liberalization of monetary division in India. A banker might be exceptionally careful in giving, on the grounds that the investor is not giving cash out of his own capital .At present NPA in the managing on account area is level headed discussion subject in light of the fact that NPA is expanding year by year especially out in the open division banks. The study is based on the secondary data retrieved from report on trend and progress of banking in India. The scope of the study is limited to the analysis of NPA of the public and private sector banks for only five years from 2012 to 2016. The study will help banks to put together and get better the regulations of banking sector.

KEYWORDS: Nonperforming Assets, Net Profit, Banking

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1. INTRODUCTION

The banking sector plays an essential role in the economic development of our country. It forms the hub of the financial sector of an economy. The hub business of banking is to collect deposits from the public and lending it to individuals and organizations. Accepting deposits do not involve any loss. But lending business always involves a large amount risk because the borrower may not be able to repay the loan within the predetermined time.

Earlier, the banks did not bother about assets quality rather they concentrated on expanding the branches, generated employees and lending to precedence sector. As a result, the assets became a major concern for the banks. Nowadays banks have become very careful in extending loans because of the rising Non Performing assets.

1.1. NON PERFORMING ASSETS

Non Performing assets as an asset or account of a borrower, which has been classified by a bank or financial institute as standard, sub standard, doubtful or loss assets ; in accordance with the directions or guidelines relating to assets classification issued by RBI.

With effect from 31st march 2004, A non performing assets shall be a loan or an advance where

- Interest and/or installment or principal remain overdue for a period of more than 90 days in respect of a term loan.
- The Account leftovers out of order for a period of more than 90 days, in value of an overdraft/cash credit (OD/CC).
- The bill remainder overdue for a period of more than 90 days in the case of bills purchased and discounted.
- Interest and /or installment of principal remainder overdue for two crop seasons, but for a period not exceeding two half years in the case of an advance contracted for agricultural purpose and
- Any amount to be accumulate remains overdue for a period of more than 90 days in respect of other.

1.2. RESPONSIBLE FACTORS FOR BUILDUP OF NPAs

There are so many factors responsible for the buildup of NPA in banking sector in universal of which some of them plays significant role like :

A. peripheral or environmental factors

- Market recession and globalization i.e. changes in macro environment
- Change in government policy
- Socio-Political pressures through govt. sponsored schemes
- Natural calamities
- Recession in economy
- Lack of effective legal system for loan recovery
- Change in commercial laws and practices

B. Borrowable Factors

- Inefficient or mis-management
- Diversion of funds
- Failure in marketing
- Willful defaults
- Improper choice of project activity

C. Inside Factors

- Defective lending process
- Poor credit appraisal system
- Absence of regular industrial visit
- Inappropriate technology
- Delay in disbursement

1.3. PROBLEMS OF NPAs

The banking sector regardless of laying prominence is not making sufficient return on investment or the return on equity that shareholders necessitate. These days its all about the customer and many banks are feeling stress because they are not delivering the level of service that consumers are demanding, especially in regards to technology. In banking system day to day NPAs are increasing so bank does not have sufficient capital adequacy ratio for managing the

risk. The major risk to India's banks is the risk in bad loans. The hold back in the economy in the last few years led to a risk in bad loans or non performing assets. One way a bank tries to make sure it is confined from bad loans is by setting aside money as a provision. This money cannot be used for any other purpose including lending as a result; banks have lower capital available to use for its various operation.

In the past few years, many banks have tried to interruption setting aside money as provisions (for future bad loans). Technically, NPA are loan account of borrower, which have been classified by a bank into three categories viz, standard asset, sub standard asset and loss asset in agreement with the guidelines relating to assets classification issued by RBI. The increase of NPAs is an important factor in banking sector influential its financial stability and growth as high NPAs have a weakening impact on capital, liquidity and profitability of the banking institutions. In addition, a high level of NPAs hampers the bank ability to recycle funds and puts a strain on the net worth of banks. Since the onset of the global financial crisis, the Indian banking system has become a source of concern due to rising NPAs.

2. OBJECTIVES OF THE STUDY

1. To calculate the relationship between NPA and profitability of the select banks.
2. To find out the impact of NPA on net profit of the select banks.

3. METHODOLOGY OF THE STUDY

3.1. Sources of data

The present study is mainly based on secondary data. The secondary data has been collected from various sources such as: annual reports of different banks & RBI, related subject matter and related website of public and private sector banks in India.

3.2. Sampling Design

The public and private sector banks for this study were selected based on purposive sampling method, for this top 4 public and 4 private sector banks in India were taken for the study on the basis of market capitalization. The study period is from 2012-13 to 2016-17.

The following are the selected sample banks:

A. Public sector Banks

- State Bank of India
- Punjab National Bank
- Bank of Baroda
- Bank of India

B. Private sector Banks

- HDFC Bank
- ICICI Bank
- Kotak Mahindra Bank
- Axis Bank

3.3. Statistical tools used

Mean has been calculated to know the average performance and to know the stability in the performance of the banks to find the relationship between NPA and Net profit.

4. ANALYSIS AND INTERPRETATION

Table 1				
Gross NPA to Gross advance ratio of select Public sector Banks in India from 2012-13 to 2016 -17 (Ratio in Percentage)				
Year	SBI	PNB	BOB	BOI
2012-13	4.71	4.24	2.3	2.96
2013-14	4.93	5.21	2.93	3.14
2014-15	4.20	6.51	3.69	5.40
2015-16	6.3	12.7	9.98	13.07
2016-17	6.8	12.51	10.47	13.23
MEAN	5.38	8.23	5.87	7.56
Source: Annual reports of various Banks (Various issue)				

Table 1 reveals the Gross NPA to Gross advance ratio of select Public Sector Banks. PNB has the highest mean ratio of 8.23, followed by BOI with 7.56. BOB have a mean ratio of 5.87. SBI has

the lowest mean ratio of 5.38. This shows that there a consistency in Gross NPA to gross advance ratio.

Table 2				
Gross NPA to Gross Advance Ratio of select Private Sector Banks in India from 2012-13 to 2016-17 (Ratio in Percentage)				
YEAR	<u>HDFC</u>	<u>ICICI</u>	KOTAK MAHINDRA	AXIS
2012-13	<u>0.94</u>	<u>3.22</u>	1.3	1.2
2013-14	<u>0.97</u>	<u>3.03</u>	1.6	1.34
2014-15	<u>0.94</u>	<u>3.78</u>	1.6	1.43
2015-16	<u>0.95</u>	<u>5.82</u>	2.1	1.75
2016-17	<u>1.05</u>	<u>8.74</u>	2.6	5.42
MEAN	<u>0.97</u>	<u>4.91</u>	1.84	2.22
Source: Calculated & Complied by Researcher				

Table 2 shows the Gross NPA to Gross advance ratio of select Private Sector Banks in India. ICICI has the highest mean ratio of 4.91, followed by Axis with 2.22. Kotak Mahindra has a mean ratio of 1.84. HDFC have the lowest mean ratio 0.97. HDFC has the lowest coefficient variance of 4.46 percent. This shows that there is a consistency in Gross NPA to gross advances ratio.

4.1. RELATIONSHIP BETWEEN NET NPA AND NET PROFITS OF SELECT PUBLIC AND PRIVATE SECTOR BANKS

Table 3

Net profit and Net NPA of select Public Sector Banks from 2012-13 to 2016-17 (Rs in Crores)

YEAR	SBI		PNB		BOB		BOI	
	Net profit	Net NPA	Net Profit	Net NPA	Net Profit	Net NPA	Net Profit	Net NPA

2012-13	14105	28782	4748	7236	4480	4192	2749	5947
2013-14	10891	31096	3343	9916	4541	6034	2719	7417
2014-15	13102	27590	3062	15396	3398	8069	1708	13517
2015-16	9951	55807	-3974	35422	-5395	19406	-6089	27996
2016-17	10484	58277	1325	32702	1383	18080	-1558	25305
Mean	11707	40310	1700	20134	1681	11156	-92	16036

Source: Annual reports of various Banks (Various issue)

Table 3 shows that when NPA is at an increasing level, there will be a downfall in the Net Profit of the banks. It is clear from the above table that the NPA of PNB increases 7236 crores to 32702 from 2012-13 to 2016-17, i.e 352% and the NPA of BOB & BOI is increases from 331.29% and 325.5% respectively .The NPA of SBI bank is the lowest in the selected Public Bank which is increases 102.47% from 2012-13 to 2016-17.This shows that the concentration of NPA with some largest Public Sector Bank increases at a high rate.

Table 4								
Net Profit and Net NPA of the Select Private sector Banks from 2012-13 to 2016-17 (Rs in crores)								
Year	HDFC		ICICI		KOTAK		AXIS	
	Net Profit	Net NPA	Net profit	Net NPA	Net Profit	Net NPA	Net Profit	Net NPA
2012-13	6626	465	8325	2225	1360	311	5178	705
2013-14	8480	822	9805	3295	1502	573	6216	1027
2014-15	10200	895	11165	6260	1865	609	7345	1318
2015-16	12295	1315	9725	13295	2089	1261	8224	2520
2016-17	14550	1844	9801	25455	3411	1718	3682	8627
Mean	10430	1068	9764	10106	2045	894	6129	2839

Source: Annual reports of various Banks (Various issue)

Table 4 shows that when NPA is at an increasing level, there will be a downfall in the Net Profit of the banks. It is clear from the above table that the NPA of HDFC increases 465 crores to 1844 from 2012-13 to 2016-17, i.e 296% and the NPA of ICICI & KOTAK is increases from 1044% and 452% respectively .The NPA of AXIS bank is increases 1123% from 2012-13 to 2016-17.

This shows that the concentration of NPA with some largest Private Sector Bank increases at a high rate.

5. FINDINGS

- SBI and BOB have the lowest Mean value of 5.38 percent and 5.87 percent respectively, which means that there is a consistency in Gross NPA to Gross Advance Ratio in public sector banks.
- HDFC and KOTAK MAHINDRA have the lowest Mean value of 0.97 percent and 1.84 percent respectively, which means that there is a consistency in Gross NPA to Gross Advance Ratio in Private Sector Banks.
- PNB and BOB have the highest NPA of 325 percent and 331.29 percent respectively in all selected Public Sector Banks.
- Axis and ICICI have the highest NPA of 1123 percent and 1044 percent respectively in all Private Sector Banks.

6. CONCLUSION

The banks are the salvation of the economy and play a catalytic role in activating and sustaining economic growth, especially in developing countries like India. Despite problems and challenges posed by weak economic activity and quiet credit demand, emerging opportunities for banking services from young population continue to provide a silver lining. Apart from that the Government's developmental initiatives such as **Make in India, Startup India –Standup India, Skill India, Housing for all**. Non performing assets is a vast problem for a developing nation like India. Recently, the government has been taking steps like NPA regulation which empowers RBI to directly mediate in Non Performing Assets. Even though complete abolition of NPA is maybe not possible in banking business it can only be controlled. Though various studies were conducted on NPA management, it is also important to understand the impact of NPA on the profitability of the banks. Hence, an endeavor has been through to study the impact of NPA on profitability performance of the select Public and Private Sector in India. The study found that

there is a major impact of NPA on Net Profits in select Public and Private sector Banks during the study period.

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