

# An Analytical Study : Impact Of Non Performing Assets On The Profitability Of Selected Indian Public Sector Banks

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**Abstract:** Banks today make decisions based not only on the number of branches and the amount of deposits but also on the quality of assets. Non-performing assets are an oversized portfolio of the bank's portfolio. Associated with them is an inevitable burden on the banking system. NPAs adversely affect the effectiveness, liquidity and solubility of banks and entire financial system and the country's economy. Thus a selective study has been conducted on public sector banks in India to judge the impact of non-performing assets on the profitability of banks. Seven nationalized banks were selected through convenience sampling for the study and the relationship between their total non-performing assets and net profit was measured with correlation analysis. Research concludes that all banks have correlation between their gross Non-performing Assets and Net profits as well as there is negative relationship between net profit and gross NPAs.

**Key Words:** Non-performing Assets, Bank profitability, Public sector banks, Financial Performance, Correlation.

## 1. INTRODUCTION:

The Indian banking industry has played a key role in economic growth for over 200 years as strongest among the other banking sectors. The stability of banking is a prerequisite for economic growth and resilience in the face of a financial crisis. The biggest threat to the banking sector is the prevalence of Non-performing assets (NPAs). NPAs represent bad loans, of which borrowers failed to meet their repayment obligations. NPAs in the loan portfolio affect operational efficiency which in turn affects profitability, liquidity, and the solvable position of banks. To address the situation, the Government of India has taken steps to address the situation of rising NPAs due to party defaults.

### 1.1 Definition of NPAs :

As per RBI norms, Assets, including leased assets, become non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in which the principal's interest and / or installments remained 'past due' for a certain period of time. The specified period was phased out as follows.

<u>Year ending March 31</u>	<u>Specified period</u>
1993	four quarters
1994	three quarters
1995 onwards	two quarters

### 1.2 Classification of NPAs

Banks are required to classify non-performing assets into three subsequent sections.

- i. Sub-standard Assets
- ii. Doubtful Assets
- iii. Loss Assets

**i. Sub Standard Assets:** Assets that remain as non-performing assets for more than 90 days but less than 12 months are called sub-standard assets. The organization is supposed to maintain its 15% reserve for these assets.

**ii. Doubtful Asset:** Assets that are outstanding for a period of more than 12 months.

**iii. Loss Assets:** Are those NPAs where 100% loss has been identified and it is not yet written off in the books of accounts.

### 1.3 Provisioning Norms

**i. Sub-standard assets :** The general provision of 10 per cent on the total balance should be made without giving any allowance for DICGC / ECGC guarantee cover and securities.

ii. Doubtful assets:

Period for which the advance has been considered as doubtful	Provision requirement (%)
Up to one year	20
One to three years	30
More than three years	50

iii. Loss assets : The entire asset should be written off. If for any reason the property is allowed to remain in the books, it should be provided for the remaining 100 per cent.

**1.4 Impact of NPA:**

- The profit of the bank will come down which they get in the form of interest.
- Banks will be reluctant to lend in this way to affect their borrowers.
- Affects the liquidity position of banks.
- Service for good customers can be affected.
- Inversely affect the bank balance sheet.

**1.5 Causes of NPA:**

**Business risk:** The organization may sometimes face problems in its own operational environment which may result in loss to the company.

**Banking lending methods:** Banks should strictly follow the rules and regulations when giving loans. They should effectively assess the credit worthiness of the borrowers. The subprime crisis in 2008 was caused by the bad practice of lending by banks.

**Borrower’s Psychology:** Sometimes a person's attitude does not allow him to pay Even if he could.

**Environmental Risk:** Sometimes environmental problems like hurricanes, droughts can occur which do not provide the required production to farmers and agro-based industries.

**2. LITERATURE REVIEW:**

**(Balasubramaniam, n.d.)<sup>1</sup>** examined Non performing assets and profitability of commercial banks in india. According to their observation from the analysis, the level of NPAs is currently high with all the banks and the banks were expected to reduce their NPAs. This can be achieved through good credit appraisal processes, effective internal control systems and their efforts to improve the quality of assets in their balance sheets.

**(Samir & Kamra, 2013)<sup>2</sup>** Conducted Analysis on Non- Performing Assets (NPAs) of Selected Commercial Banks in India. The paper analyzes the status of NPAs in State Bank of India (SBI), Punjab National Bank (PNB) and Central Bank of India (CBI) To private and foreign banks in India. Similarly, the problem of NPAs is more in the priority sector than in the priority sector and the public sector. Further, the SSI sector has a large share in the total NPAs of the priority sector. As a result, the financial health of banks has been adversely affected. Therefore, banks in India must use the basic principles of financial management to solve the problems of mounting NPAs.

**(Ganesan & Santhanakrishnan, 2013)<sup>3</sup>** Conducted a study on NON-PERFORMING ASSETS of SBI. In their study research use primary and secondary data. The secondary data were collected from various issues of SBI Annual Reports and RBI Bulletins. The primary data were collected from the questionnaire. He observed that the intensity of NPAs is comparatively higher in public sector banks. To improve the efficiency and profitability of banks, it is necessary to reduce and control NPAs.

**(Kiran & Jones, 2016)<sup>4</sup>** In their study , overviewed the effect of Non performing assets on the profitability of selected Indian banks .This study tooks data from 2005 to 2014 of six public sector banks. The banks have expressed a correlation between Gross NPA and the Net profit. The results show that all banks except SBI show a negative correlation between their gross non-performing assets and net profit. But net profit for SBI is unaffected by gross non-performing assets and it remains only in steady profit.

**(Majid Shaban, 2018)<sup>5</sup>** examined non-performing assets and their impact on the profitability of commercial banks. ; Data collected from RBI database for a period of eleven years from 1st April 2006 to 31st March 2017. he used regression analysis, return on assets and return on equity as proxy variables while gross NPA to gross advances ratio and net NPA to net advances ratio were used as independent variants of banks. He concluded that NPAs have the

opposite effect on banks' profits. Moreover, the results show that the profitability of foreign banks is least affected by NPAs as compared to public and private banks..

**(Singh, 2016)<sup>6</sup>** Studied on non-performing assets of commercial banks and it's recovery in India He collected secondary data from Various magazines, journals, books and research papers which considered non-performing assets in scheduled commercial banks for the period of 14 years, i.e. from 2000 to 2014. The NPA level of our banks is still higher than that of foreign banks. It is not possible to have zero NPA. He found that the problem of recovery was not of small borrowers but of large borrowers and a strict policy should be adopted to address this problem.

**(Valliammal & Manivannan, 2018)<sup>7</sup>** Examined Non- Performing Assets and Its Impact on Public Sector Banks in India In this research secondary data collected from published bank annual statement of SBI, BOB, CANARA and UBI bank. Analyzed the net profit trend in various banks over a period of 7 years. Correlation analysis shows that banks' NPAs and profits generally have a strong negative correlation. They have observed that there is a very high correlation between the decline in profits and the increase in such wealth. These banks need to pay more attention to the management of financial assets to increase profitability.

### 3. RESEARCH METHODOLOGY:

#### 3.1 Objective of the study

- 1) Investigate the relationship between non-performing assets and the profitability of banks.
- 2) Establish a relationship between NPAs and net profit of banks.

#### 3.2 Hypothesis

H0: There is no significant relationship between the change in NPA and the bank's net profit.

H1: There is no significant relationship between the change in NPA and the bank's net profit.

#### 3.3 Sampling design

In this study, seven public banks have been taken up by using the convenience sampling method of non-probability sampling. Name of The selected public sector banks are as under:

- 1) State bank of India
- 2) Bank of India
- 3) Union bank of India
- 4) CANARA bank
- 5) Central bank of India
- 6) Indian bank
- 7) UCO bank

#### 3.4 Source of the Data Collection

In this research, secondary data have been taken from respected annual reports of selected banks.

#### 3.5 period of the study

Seven years of data from 2013 to 2019 are included in this study.

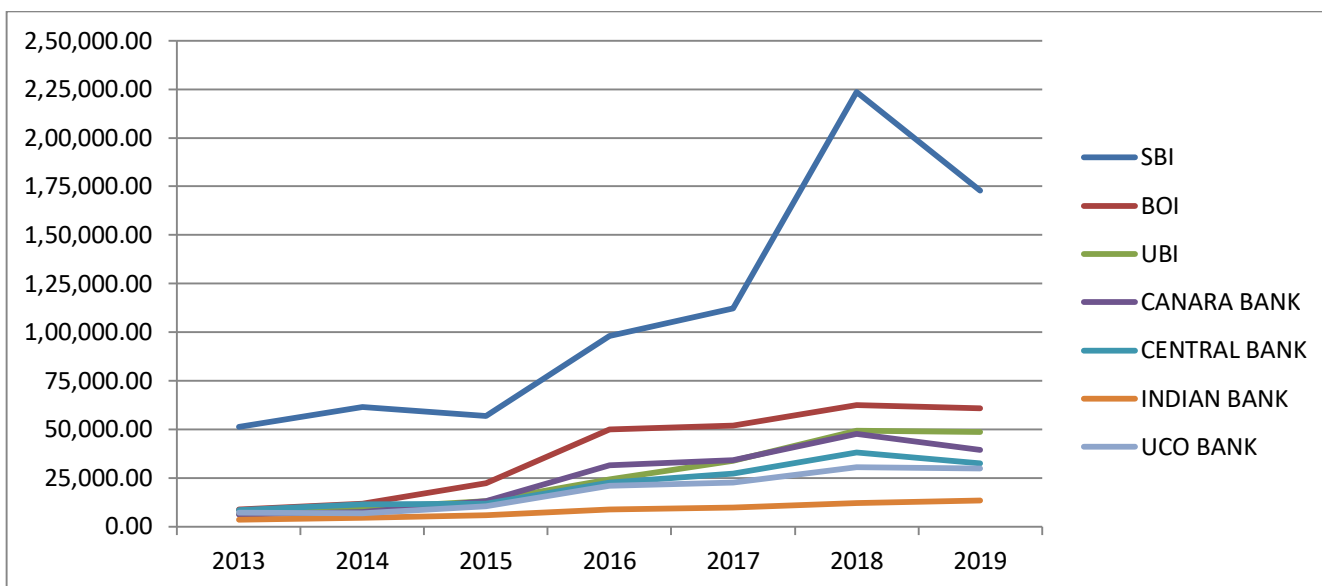
#### 3.5 Research tool

Correlation formula is used in this research.

### 4. DATA ANALYSIS:

**Table 1 GROSS NPAs**

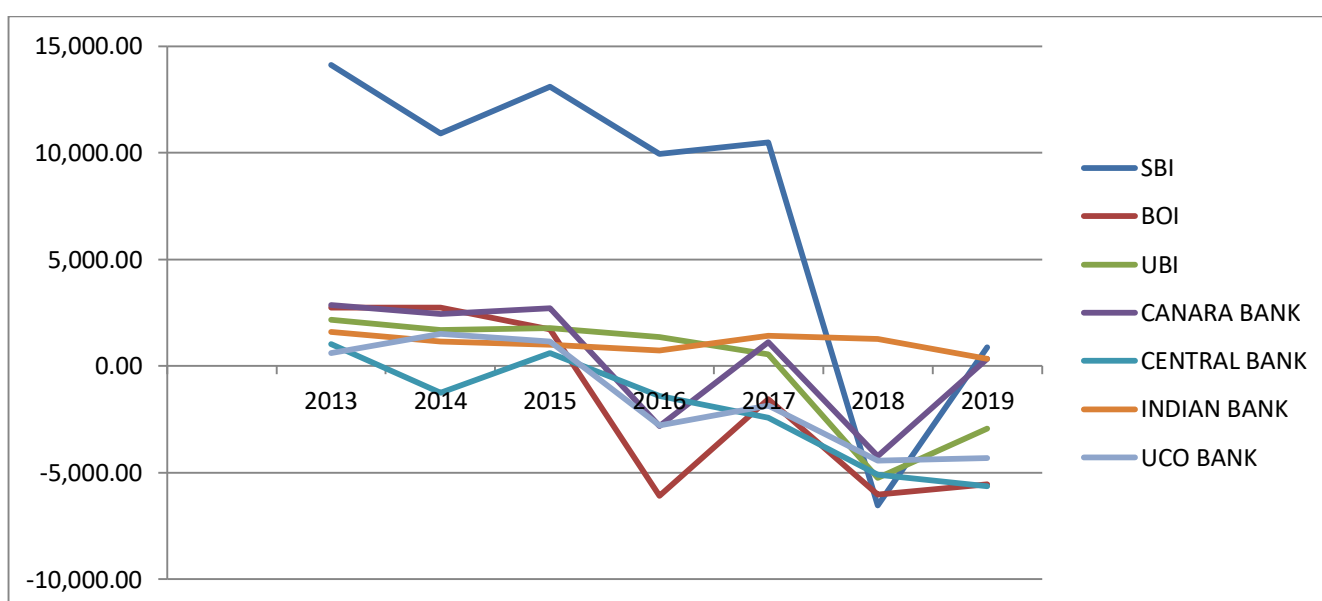
Year	SBI	BOI	UBI	CANARA BANK	CENTRAL BANK	INDIAN BANK	UCO BANK
2013	51,189.39	8,765.25	6,313.83	6,260.16	8,456.18	3,565.47	7,130.09
2014	61,605.35	11,868.60	9,563.72	7,570.21	11,500.01	4,562.20	6,621.37
2015	56,725.34	22,193.24	13,030.87	13,039.96	11,873.06	5,670.44	10,265.05
2016	98,172.80	49,879.12	24,170.89	31,637.83	22,720.88	8,827.04	20,907.73
2017	112,342.99	52,044.52	33,712.28	34,202.04	27,251.33	9,865.14	22,540.95
2018	223,427.46	62,328.46	49,369.93	47,468.47	38,130.70	11,990.14	30,549.92
2019	172,750.36	60,661.12	48,729.15	39,224.12	32,356.04	13,353.45	29,888.33



The foregoing data table and graph here shows the trend of NPAs of different seven public banks for the year 2013 to 2019 which shows that the total NPAs have been steadily increasing for all public sector banks for a specified period. Because the financial performance of banks is increasing. Compared to other banks, SBI has high NPAs and INDIAN Bank has lower NPAs than other banks.

**Table 2. NET PROFIT**

Year	SBI	BOI	UBI	CANARA BANK	CENTRAL BANK	INDIAN BANK	UCO BANK
2013	14,104.98	2,749.35	2,157.93	2,872.10	1,014.96	1,581.14	618.19
2014	10,891.17	2,729.27	1,696.25	2,438.19	-1,262.84	1,158.95	1,510.54
2015	13,101.57	1,708.92	1,781.64	2,702.63	606.45	1,005.17	1,137.80
2016	9,950.65	-6,089.21	1,351.60	-2,812.82	-1,418.19	711.38	-2,799.25
2017	10,484.10	-1,558.34	555.21	1,121.92	-2,439.10	1,405.68	-1,850.67
2018	-6,547.45	-6,043.71	-5,247.37	-4,222.24	-5,104.91	1,258.99	-4,436.37
2019	862.23	-5,546.90	-2,947.45	347.02	-5,641.48	321.95	-4,321.09



Here the above data table and the graph shows the trend of net profit and loss for the different 7 public sector banks for the years 2013 to 2019. Most banks have tightened negative growth since 2015. Bank of India has performed the most negatively in profits.

**Table 3: Correlation between Gross NPA and Net Profit**

BANK	CORRELATION
SBI	-0.973618641
BOI	-0.936268528
UBI	-0.908983455
CANARA	-0.818516834
CENTRAL	-0.927510939
INDIAN	-0.548279078
UCO	-0.977276433

This analysis shows a stunning correlation between the NPA and profits of public sector banks which indicate strongly negatively correlated. In this analysis shows that all the public sector bank have expressed negative correlation. Generally the profitability of the banking sector is based on timely loan recovery which is divided into different sectors. The performance of the banking sector depends on how effectively you manage non-performing assets. Here banks like Central Bank of India, BOI, etc. are facing huge losses, resulting in a negative growth rate of the company. All banks are facing problems in the context of the NPA.

### 5. FINDINGS OF THE STUDY:

- ⇒ Due to NPAs Public sector banks are facing more problems.
- ⇒ All of the above public banks are having NPAs in their financial statement.
- ⇒ NPAs are rising for all the public banks.
- ⇒ All banks have negative relationship between Gross NPAs and Net profit.

### 6. CONCLUSION:

The economic process and growth of every country depends on the right functioning of the country's financial system. Non-performing assets have always been a major problem for Indian banks. It is a problem not only for banks but also for the economy. As observed from the above analysis, the level of NPA with all banks is high as it currently indicates the actual efficiency of credit risk management and banks will be expected to bring their NPAs down. Thus, the banking sector should now focus primarily on the effective management of NPAs so as to increase their profitability and from there provide as much funding as possible to the industry. Institutions should develop new strategies to improve loan repayment.

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