A COMPARATIVE STUDY: EFFECT OF NON PERFORMING ASSETS ON THE PROFITABILITY OF PUBLIC SECTOR BANKS IN INDIA

Kurbanhusain A. Kadiwala
Research Scholar, Department of Business Studies
Sardar Patel University, Vallabh Vidyanagar, Gujarat, India.
Email Id: kurbanhusain28@gmail.com

Abstract: *Non-performing Assets is that the key term for the banking sector. Non-performing Assets indicates the potency of the performance of the banks. Non-performing Assets is that the amount which isn't received by the bank in return of loans disbursed. The amount of Non-performing Assets affects not solely the banking sector, however the entire financial system and there by the economy of the country. So this research has been done on public sector banks in India to judge the effect of NPAs on the profit of banks. In this research, convenience sampling through five nationalized banks were selected and also the relation between their gross Non-performing Assets and net profit was measured. The result shows that all banks have correlation between their gross Non-performing Assets and Net profits.*

Key Words: *Non-performing Assets, Net Profit, Public sector banks, Financial Performance.*

1. INTRODUCTION:

The Indian banks have played vital role in the economic growth for over a many years. Banking mediator transfer of monetary resources from households to investors and therefore enables economic growth. The loans and advances given by banks to investors in expectation of future income are treated as assets for the banks. Non-Performing Assets (NPA) is any kind of assets of a bank that doesn't create any income for the bank. That's a loan or advance that isn't meeting its interest or principal payments that become Non-Performing Assets. The RBI classifies loans on that interest or instalment of principal that remain overdue for a period of over 90 days from the end of specific periods as a Non-performing Assets.

1.1 Definition of NPA as per RBI norms

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. According to RBI "A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or installment of principal has remained 'past due' for a specified period of time." The specified period was reduced in a phased manner as under:

Year ending March 31	Specified period
1993	four quarters
1994	three quarters
1995 onwards	two quarters

1.2 Categories of NPAs

Banks are needed to classify non-performing assets additional into the subsequent three divisions based on the duration for that the asset has remained non-performing and therefore the reliability of the dues:

  a. Sub-standard Assets
  b. Doubtful Assets
  c. Loss Assets

The assets that remain as non-performing assets for less than twelve months are called substandard assets. The organization is meant to take care of 15% of its reserves for these assets.

a. Sub Standard Assets: The assets that remain as non-performing assets for less than twelve months are called Sub-standard assets. The organization is meant to take care of 15% of its reserves for these assets.

b. Doubtful Assets: The assets which haven't been recovered for more than twelve months.

c. Loss Assets: The assets that are declared as loss by the auditors however those are not written off.

2. LITERATURE REVIEW:

Ganesan & Santhanakrishnan (2013)[1] studied on non-performing assets of State Bank of India. This study used primary data and secondary data both. Secondary data collected from annual report of SBI and primary data collected from questionnaires. The researcher concluded that assets are becoming NPA because various steps taken by the Government of India on non-performing assets levels were reduced to considerable level.

Singh (2013)[2] examined on performance of non-performing assets in Indian commercial banks. They took NPAs data of public sector banks and private sector banks. He used comparative research design. He found that the high level of NPAs which is effect on the profitability and liquidity of banks. The researcher concluded that NPAs of public sector banks are higher than the private sector banks.

Joseph (2014)[3] studied on the trend of NPA level in Private sector banks and public sector banks. The researcher found that NPAs are exhausting the capital of the banks and weakening their financial strength. NPA level of public sector banks is higher than the private sector banks. Public sector banks must take more care in escape any account becoming NPA by taking appropriate preventive measures in an active way.

Narayanan & Surya (2014)[4] examined on causes and effects of the non-performing assets in Indian bank. This study used descriptive research design. This study took secondary data from annual reports from 2007 to 2012 and primary data took by interview. They used analytical tool like t-test. The researcher found that recent time banks are very tentative in extending loan, because of rising NPA. NPA during the last five years has not risen intensely and constantly it still remains a big challenging when it comes to improvement of bad loans.

Kiran & Jones (2016)[5] analyzed on effect of non-performing assets on the profitability of selected Indian banks. This study took six banks as samples from population. They analyzed by correlation between Non-performing assets and net profit. The researchers found that all the banks are having NPAs, large banks are able to manage the losses by NPAs but small banks are not able to recover, SBI is also having vast losses but it is also earning high profits and last, Public sector banks are facing more issues by NPAs.

Valliammal & Manivannan (2018)[6] analyzed impact of non-performing assets on the financial performance in Indian selected banks. This study took secondary data from 2013 to 2017 of four selected banks. The researcher analyzed gross NPA and net profit by statistical tool like correlation. This study found that significant level of impact on profitability because to Non-performing assets.

3. RESEARCH METHODOLOGY:
3.1 Objective of the study
1)   The main objective of the present research is to analyses the relationship between the Non-performing assets and the net profits of banks.

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[1] Ganesan, D., & Santhanakrishnan, R. (2013). Non-performing assets: a study of State Bank of India. *Retrieved from Asia Pacific Journal Of Research*, *1*.

[2] Singh, A. (2013). Performance of non-performing assets (NPAs) in Indian Commercial Banks. *International Journal of Marketing, Financial Services & Management Research*, *2*(9), 86-94.

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[4] Narayanan, B. S., & Surya, R. (2014). A study of non-performing assets in Indian banks. *International journal of management research and business strategy*, *3*(3).

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[6] Valliammal, M., & Manivannan, S. K. (2018). A Study on Non-Performing Assets and Its Impact on Public Sector Banks in India.

2) To find out the correlation between NPAs and Net Profits of Banks.

3.2 Significances of the research
1) This analysis through government and banks' management can take decision about improvement of NPAs.
2) Also, investors can take decision about investment.
3) We know about relationship between NPAs and profitability.

3.3 Hypothesis
H0: There is no significant relationship between changes in NPA and Net Profit of the bank.
H1: There is significant relationship between changes in NPA and Net Profit of the bank.

3.4 Sampling design
In this study, five public banks have been taken by convenience sampling method of Non probability sampling. Name of the selected public banks as follows:
1) Bank of Baroda
2) Bank of India
3) Bank of Maharashtra
4) Punjab National Bank
5) Syndicate Bank

3.5 period of the study
Ten years of data from 2010 to 2019 are included in this study.

3.6 Source of the data
In this research, secondary data have been taken from respected annual reports.

3.7 Research tool
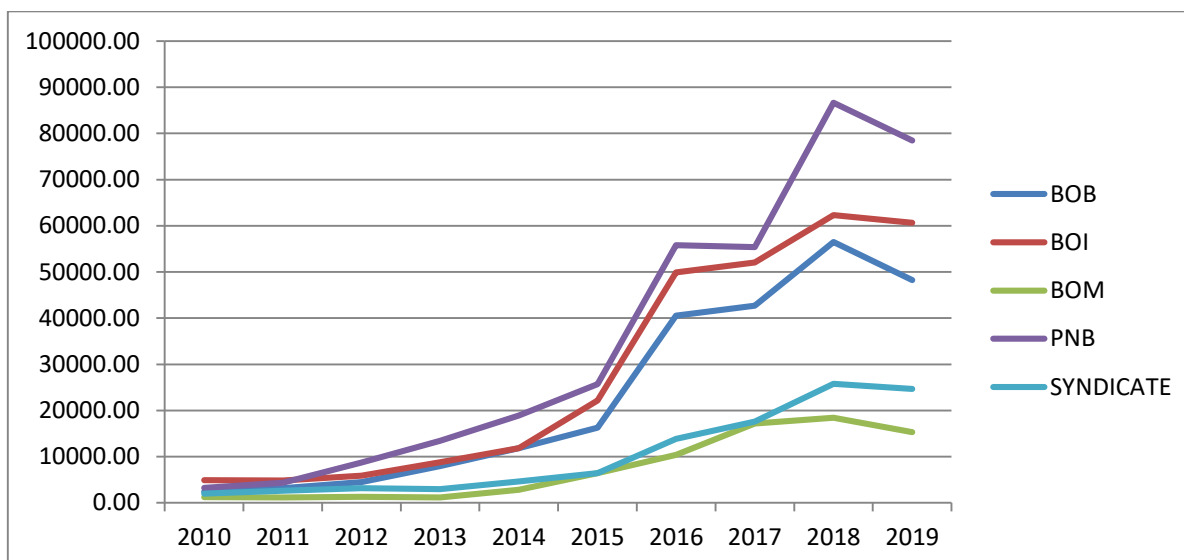In this research, take correlation formula.

3.8 Limitation of the study
➢ This research based on the secondary data.
➢ Only five banks of Public sector have been selected for this study. So, these few samples do not represent whole banking sector.
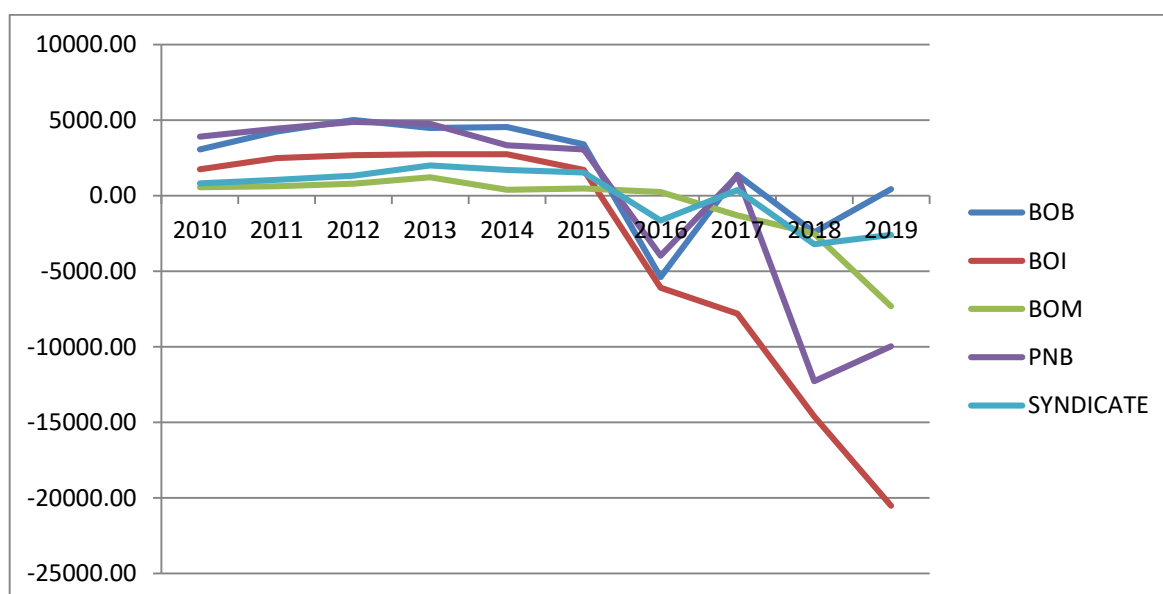
4. DATA ANALYSIS:

Table 1: Gross NPAs

Gross NPA				(In Crore)
	BOB	**BOI**	**BOM**	**PNB**	**SYNDICATE**
2010	2400.69	4882.65	1209.79	3214.41	2006.82
2011	3152.50	4811.00	1173.70	4379.39	2598.97
2012	4464.75	5894.00	1279.03	8719.62	3182.70
2013	7982.58	8765.00	1137.55	13465.79	2978.50
2014	11875.90	11869.00	2859.85	18880.06	4611.13
2015	16261.45	22193.00	6402.06	25694.86	6442.38
2016	40521.04	49879.13	10385.85	55818.33	13832.16
2017	42718.70	52044.52	17188.71	55370.45	17609.31
2018	56480.38	62328.46	18433.23	86620.05	25758.60
2019	48232.76	60661.12	15324.49	78472.70	24680.37

Above table and graph indicate the gross NPAs are incessantly increasing for all the public banks for the specified duration. Because of the financial operations of banks are increases. PNB has high NPAs compare to other banks and Bank of Maharashtra has lower NPAs compare to other banks.

Table 2: Net Profit

	Net Profit			(In Crore)	
	BOB	BOI	BOM	PNB	SYNDICATE
2010	3058.33	1741.07	567.41	3913.00	813.32
2011	4241.68	2488.71	615.27	4433.50	1047.95
2012	5006.96	2677.52	796.27	4884.20	1313.39
2013	4480.72	2749.35	1204.87	4747.67	2004.42
2014	4541.08	2729.27	385.97	3342.57	1711.46
2015	3398.44	1708.92	480.83	3061.58	1522.93
2016	-5395.54	-6089.21	250.15	-3974.40	-1643.49
2017	1383.14	-7807.00	-1304.75	1324.80	358.95
2018	-2431.81	-14600.55	-2517.16	-12282.82	-3222.84
2019	433.52	-20509.21	-7327.54	-9975.49	-2588.29

This is the trend of net earnings for the various banks for the years 2010 – 2019. The majority banks have toughened a negative growth after year 2015. All banks doing average net profit performance during 2010 to 2015.The Bank of India has highest negative performance in profitability.

Table 3: Correlation between Gross NPA and Net Profit

BANK	CORRELATION
BOB	-0.80424
BOI	-0.92451
BOM	-0.71069
PNB	-0.93769
SYNDICATE	-0.90287

The correlation analysis indicate that the NPA and profits of banks are generally strong negatively correlated. All banks have impact of NPAs are strongly felt on the profitability.

5. FINDINGS:

➢ All the public banks have non-performing assets in their financial statement.
➢ The Non-Performing Assets are going on increasing for all the public banks.
➢ Public sector banks are facing more issues by NPAs.
➢ All banks have negative relationship between Gross NPAs and Net profit.

6. CONCLUSION:

The economic development of each country depends on the right functioning of financial system of the country. The financial system is the main of banking sector. Now a day, our government is concentrating in development of economy that desires large monetary resources. The gross domestic product of India can solely grow, if the desired funds are going to be invested in the economy. So banking sector should mainly focus on NPAs to increase its profitability and thereby give the maximum funds as possible to the business. The organizations should to develop new methods to improve the recovery of loans. The study concluded that is significant relationship between changes in NPA and Net Profit of the bank.

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