



IMPACT OF NON-PERFORMING ASSETS (NPA'S) ON BANK'S PROFITABILITY – INDIAN SCENARIO

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ABSTRACT

Non-performing Assets (NPA's) plays a crucial role in the assessment of financial performance of a bank. In simple terms, NPA is the pivotal term for banks by which one can the fitness can be assessed very easily. NPA's means the portion of money not received by the banks towards they disbursed or sanctioned loans. Therefore, banks must be more cautious while sanctioning the loans because it not only affects the bank but also the overall financial system. Non-Performing Assets influence the fund establishment as well as the complete budgetary framework. In this way, a detailed research has been done on public sector banks in India to assess the impact of NPA's on the productivity of banks. Banks today are not made a decision about just based on number of branches and volume of stores yet additionally based on standard of benefits. NPAs adversely impact on the gainfulness, liquidity and dissolvability of the banks. This paper concentrates on the conditions of NPAs in chosen banks. Specifically, Seven Public Sector Banks has been chosen for the research i.e. State Bank of India (SBI), Bank of India (BOI), United Bank of India (UBI), Bank of Baroda (BOB), Indian Overseas Bank (IOB), Punjab National Bank (PNB) and Central Bank India (CBI). Simultaneously, this research also focused on the strategies to be followed by the banks to handle the NPAs and proposes a multi-pronged system for fast recuperation of NPAs in banking area. The connection between Gross NPA and Net Profit of seven banks has been examined in this paper. The outcome shows that aside from SBI and PNB the wide range of various banks display a negative relationship between their gross Non-Performing Assets and net benefits. However, SBI and PNB is expanded the net benefit each year not influenced by Gross Non-Performing Assets. These two banks are focusing towards their NPA to recuperate their forthcoming credits. This research is completely depending on optional information recuperated from Report of Progress of banking in India, Websites, Journals and Articles.

Key words: Non-Performing Assets, Profitability, Financial Performance, Budgetary frame work, Productivity.

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1. INTRODUCTION

With the presentation of budgetary area changes in the year 1991, the essences of Indian Banking area have incredibly changed. The issues emerging in the financial area have started influencing the Indian economy. At the point when the economy imploded likewise influenced the financial area. The financial area likewise has a significant function in the recuperation cycle of the nation's economy in general. The banking business has moved bit by bit from a synchronized climate to a decontrolled market-based economy. In 1991-1992 India was embraced the open economy. The start of progression and globalization in market advancement there has been gigantic changed in the momentary part of banks in India. The issue of growing non-performing resource is getting consideration and expansion of gigantic NPA has expected extraordinary significance regarding hazard the executives. The occurrence of non-performing resources (NPAs) is influencing the presentation of the credit organizations monetarily. NPA is an issue coming about in non-execution of a segment of advance portfolio prompting no recuperation or less recuperation pay to the loan specialist. NPAs speak to the measure "Credit Risk". Financiers have acknowledged to have powerful NPA the board on their need list. NPA comprehensively characterized as non-reimbursement of intrigue and portion of chief sum (Das and Ghosh, 2006). As per the Narasimhan Committee Report (1991), those benefits (overdraft/money credit) for which the premium stays due for a time of four quarters (180 days) ought to be considered as NPAs". After, this period had decreased and from March 1995 onwards resources for which intrigue and rule stays unpaid for a time of 90 days were considered as NPAs. In this way, NPA establishes a significant factor in the financial framework as it genuinely influences the benefit of the banks. The NPA can extensively be ordered into Gross NPA and Net NPA. Net NPA mirrors the nature of the credits made by banks though Net NPA shows the genuine weight of banks.

A. Reasons for NPA

Loaning Practices of Banks: In 2008 the financial emergency has been happened in light of terrible loaning practices of banks. The banks ought to carefully observe rules and guidelines while loaning credits. They ought to appropriately follow the credit strategy of banks.

Business Risk: The banks or financial institutions may in some cases face issues with its own operational climate which may bring about misfortunes for the organization.

Natural Risk: Sometimes there might be ecological issues like twisters, dry spell which doesn't give the necessary yield to the ranchers and Agri based organizations.

B. Effect of NPA

Liquidity: The Banks are confronting the issue of NPAs. They are not recouping which loaning cash to borrower. Those occasions cash will be hindered. Banks need more money close by for brief timeframe.

Credit misfortune: Banks lose their altruism and brand value in market when there is issue with their NPA that further influence the estimation of the banks as far as market credit.

Productivity: NPA impact on current benefits as well as benefit of whole money related year.

C. Kinds of NPA

NPA Gross: It is a development which is viewed as discounted, for bank has made arrangements, and which is as yet held in banks' books of record. Net NPA (non-performing resource) alludes to generally number of credits that have turned sour obligations. It comprises of the apparent multitude of nonstandard resources like as inadequate, dicey, and misfortune resource. "Net NPAs Ratio = Gross NPAs/Gross Advances"

NPA Net: Net NPAs are those kinds of NPAs wherein the bank has deducted the arrangement with respect to NPAs. "Net NPAs = Gross NPAs – Provisions/Gross Advances – Provisions"

D. Classification of Assets

Standard Assets: Standard Asset implies which resources are not confronting the issue and not more danger towards client. Such resources are thought to perform resource. An overall arrangement of 0.25% must be given on worldwide credit portfolio premise.

Unsatisfactory Assets: An advantage would be named unsatisfactory on the off chance that it remained NPA for a period not exactly or equivalent to a year. As needs be, an overall arrangement of 10% on extraordinary must be given on unacceptable resources.

Dubious Assets: These are the advantages which have remained NPAs for a period surpassing a year and which are not considered as a misfortune advance. According to RBI guidance banks need to encourage 100% of unstable measure of the extraordinary advance.

2. REVIEW OF LITERATURE

As per Reserve Bank of India (RBI) clarifies the meaning of NPAs, "an advantage makes non-performing when it stops to create pay for the bank. As of late an advantage was estimated as non-performing resource (NPA) remain on the idea of 'Past Due'. A non performing resource was inspected as credit in regard of which enthusiasm of chief has stayed 'past due' for a specific time".

Siraj and Sudarsanan Pillai (2021) says that "NPA is an infection influencing banking area. The investigation inferred that NPA actually stays a significant danger and the steady segment disclosed through increases to NPA offers an incredible conversation starter mark on productivity of credit hazard the executives of banks in India".

Debarsh and Sukanya Goyal (2020) underscored "on the board of non-performing resources in the point of view of the public area banks in India under severe resource characterization standards, utilization of most recent innovative stage dependent on center financial arrangement, recuperation methodology and other bank explicit markers with regards to tough administrative system of the RBI". In the fundamental investigation 'using a loan strategy, frameworks, and culture',

Reddy (2019) raised different basic issues relating to credit conveyance instrument of the Indian financial area. Fundamentally analyzed "different issues relating to terms of credit of Indian banks. In this unique situation, it was seen that 'the component of intensity makes little difference to the criminal behavior. A default isn't altogether a silly choice. Or maybe a defaulter considers probabilistic evaluation of different expenses and advantages of his choice". The issue of NPAs is identified with a few interior and outer variables confronting the borrowers.

Muniappan, (2018) "The inside components are redirection of assets for expansion taking up new ventures, helping/advancing partner concerns, time/cost invades during the undertaking usage stage, business (item, showcasing, and so forth) disappointment, wasteful administration, stressed work relations, unseemly innovation/specialized issues, item oldness, and so on, while outer variables are downturn, non-installment in different nations, inputs/power lack, value heightening, mishaps and normal disasters".

3. METHODOLOGY

The prime objective of this research paper is to break down the patterns in NPAs regarding values, net NPAs and net benefit. Only few research studies are concentrated on NPA in Indian financial area are accessible, the investigations on a more critical look approved NPA issue

utilizing auxiliary information. That is why, the focal point of the study is centered around examining nonperforming resources of public area banks in India during the period 2011 to 2020. The present study is a clear report which attempts to set up the connection between the non-performing resources and net benefits. The information for the research has been sourced from Reserve Bank of India (RBI) notices, measurable tables identifying with banks in India, report on existing and progress of banking in India, given by the RBI. The research additionally recommends multi-pronged and expanded methodology for expedient recuperation of NPAs in business banks in India. The tools used in this research are Correlation and Regression utilizing MS Excel. The paper comprises of optional information which has been gathered from various distributions, for example, the Reserve Bank of India distributions, the reports distributed by business banks, different issues of the IBA diary and so forth the experimental discoveries utilizing perception strategy and factual instruments like connection, relapse and information portrayal strategies recognizes that there is a negative connection between productivity measure and NPAs.

4. ANALYSIS AND DISCUSSION

Table 1 Financial Performance/Results of Selected banks from 2011-2020

Net Profit (Rupees in corer)							
Year	SBI	BOI	UBI	BOB	IOB	PNB	CBI
2011	4541.31	1125.95	267.28	1026.46	1008.43	1540.08	498.01
2012	6729.12	1960.28	318.95	1435.52	1202.34	2048.76	550.16
2013	9121.23	3009.41	184.71	2227.20	1325.79	3090.88	571.24
2014	9166.05	1738.56	322.96	3058.33	706.96	3905.36	1058.23
2015	7370.35	2488.71	523.97	4241.68	1072.54	4433.50	1252.41
2016	11707.29	2674.62	632.53	5006.96	1050.13	4884.20	533.04
2017	14104.98	2741.91	391.90	4480.72	567.23	4747.67	1014.96
2018	10891.17	2732.65	-1213.44	4541.08	601.74	3342.58	-1262.84
2019	13101.57	1748.32	255.99	3398.44	-454.33	3061.58	606.45
2020	9950.65	-6334.98	-281.96	-5395.54	-2897.33	3944.40	-1117.67

Source: Compiled by author

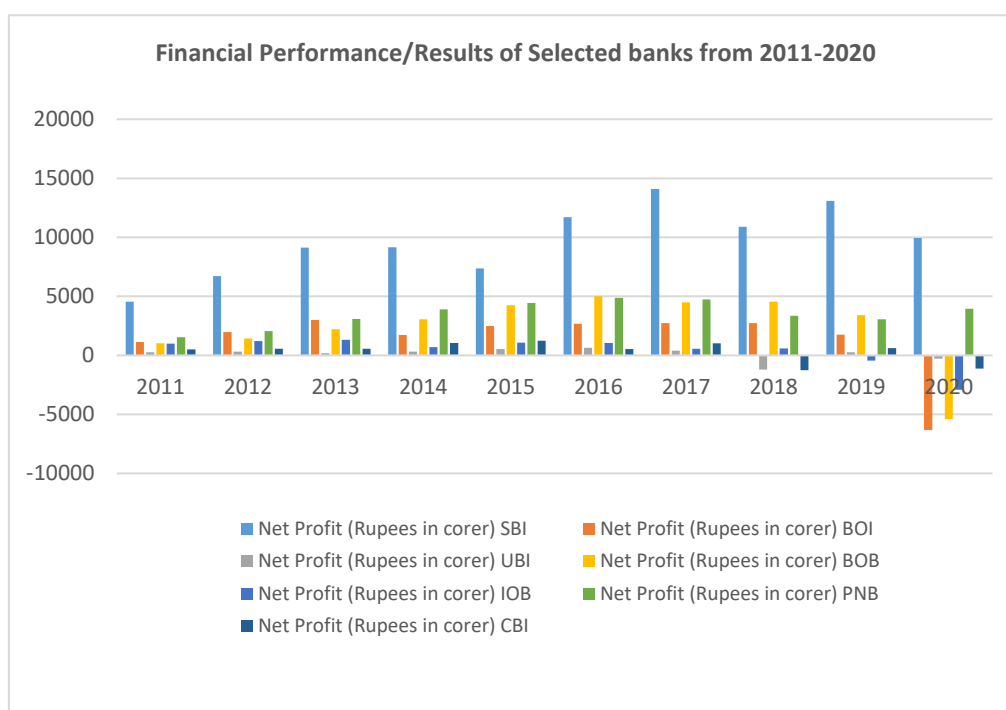


Figure 1

This is the trend of Net Profit for the different banks for the years 2011 –2020. Almost all the banks have experienced a negative growth in the year 2018. A remarkable difference in the financial status of the banks was observed in the year 2018. All the banks except SBI and PNB went through a severe loss in the year. The loss percent of the banks- BOI, BOB, IOB, CBI and UBI in the year 2018 as compared to 2017 were 462.32, 258.77, 537.71, 284.30, and 210.14 respectively. Among the banks, only SBI and PNB could achieve profit consistently in all the years.

Table 2 Gross NPA’s of Selected banks from 2011-2020

Gross NPA (Rupees in corer)							
Year	SBI	BOI	UBI	BOB	IOB	PNB	CBI
2011	9998.00	0.00	744.30	0.00	1120.00	3390.72	2572.00
2012	12837.34	0.00	817.00	2400.69	997.00	3319.30	2350.00
2013	15588.6	0.00	761.00	1842.92	1923.40	2767.46	2316.50
2014	19534.89	0.00	1019.60	1981.38	3611.00	3214.41	2457.90
2015	25326.29	4811.55	1355.78	3152.50	3089.00	4379.39	2394.53
2016	39676.46	5893.97	2176.42	4464.75	3920.00	8719.62	7273.46
2017	51189.39	8765.25	2963.83	7982.58	6607.00	13465.79	8456.18
2018	61605.35	11868.80	7118.01	11875.90	9020.00	18880.06	11500.01
2019	56725.34	22193.24	6552.91	16261.45	14922.00	25694.86	11873.06
2020	98172.80	49879.12	9471.01	40521.04	30048.00	55818.33	22720.88

Source: Compiled by author

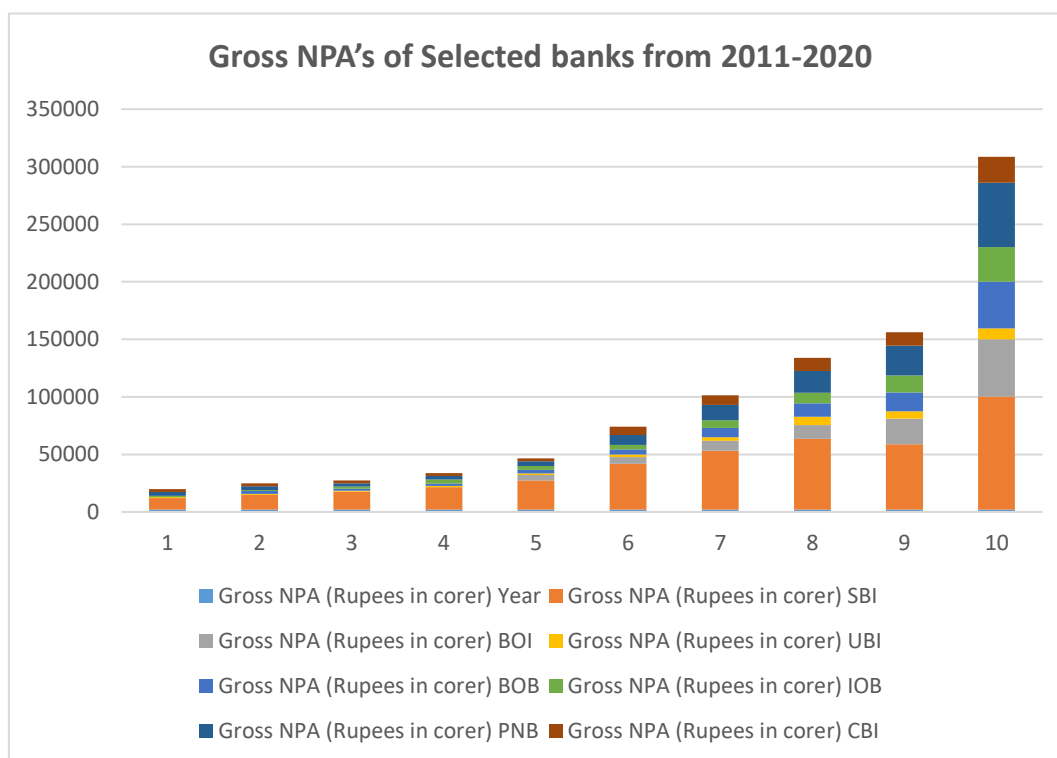


Figure 2

The gross NPA have been continuously increasing for all he banks for he specified period. As the business operations of the bank increasing the amount of NPAs have also increased. NPA of the banks went on increasing in all the years but a drastic raise was observed in the year 2018. The percentage raise of NPA of the banks in the year 2016 as compared to 2017 were SBI – 73.07, BOI- 124.75, UBI- 44.53, BOB- 149.18, IOB-101.37, PNB- 117 and CBI- 91.36

Table 3 Correlation between NPA and Net Profit of the selected banks

Bank	Correlation
State Bank of India	0.591125611
Bank of India	-0.863792026
United Bank of India	-0.654074198
Bank of Baroda	-0.720973007
Indian Overseas Bank	-0.985503809
Panjab National Bank	0.194168193
Central Bank India	-0.73857971

It is very clear that correlation for SBI and PNB are equal to 0.591 and 0.194 respectively. It means that there is a positive relation between Net Profits and NPA. It means that as profits increase NPA also increase. NPA is directly related to Total Advances given by bank and banks main source of income is interest earned by bank. But other banks are negative correlation. NPAs are increasing in every year but net profit decrease

5. RESULTS

The banks have communicated relationship between Gross NPA and the Net benefit. SBI and Punjab National Bank have indicated positive relationship, and the wide range of various banks communicated negative connection. Bank of Baroda expanding the NPA practically 249% as contrast and 2015. In this examination paper applying the arbitrary technique for board relapse, the outcome is: plm (formula = $G.NPA \sim \text{Net Profit}$, information = npa_rp, model = "arbitrary", R-Squared: 0.57082, R esteem is 57% that is the reason this model is successful model. This model demonstrated that when the NPA is expanding that time net benefit diminishing. The autonomous factors are non-performing resource. Ordinarily the gainfulness of the financial area relies upon recuperation of advances on time which are dispensed to the various areas. The exhibition of banking area relies upon how successfully you deal with the non-performing resources. But SBI and Punjab National Bank all the banks are confronting issues concerning NPAs. It doesn't show that the more NPAs the more benefits for SBI however the biggest bank of India can get more benefits simply because of its wide assortment of budgetary administrations and compelling administration of NPAs. However, on the off chance that NPAs proceed in a similar way, at that point even enormous banks will likewise stagger like Lehman Brothers in USA which brought about International monetary emergency.

6. CONCLUSION

NPAs influence the money related execution of Indian banks also monetary development of economy. Indian financial framework is confronting the NPAs issue. Each nation's monetary development relies on their money related framework. The money related framework chiefly contains banking area. Particularly open area banks should zero in on their NPA Management to develop their benefit. The monetary establishments ought to grow new methodologies wanting to improve the recuperation of credit. Non-performing resources (NPAs) is influencing the exhibition of money related organizations both monetarily and mentally. The non-performing resources have become a significant reason for concern. Retaining the credit, the board aptitudes has become even more significant for improving the main concern of the financial area. The current NPAs status keeps on upsetting Indian Financial Sector. A few investigations have been attempted to reduce NPAs however nothing has hit the imprint in handling NPAs. The Indian financial area confronted a difficult issue of NPAs. A significant level of NPAs proposes high likelihood of an enormous number of credit defaults that affect the gainfulness and liquidity of banks. A large portion of the issue identified with NPA is looked by open area banks. To improve the effectiveness and gainfulness, the NPAs must be booked.

Exacting measures are should have been taken up to battle these NPAs emergencies. It is profoundly difficult to have zero rate NPAs. Improvement in recuperation the executives appropriately working of banks relies upon time recuperation of credit. Banks ought to build up another recuperation programs for over levy, checking accounts, keeping customary contact with borrowers. In any case, numerous borrowers are defaulters not in view of low pay yet because of absence of morals. Improving the credit Management-Management of credit is fundamental for appropriate working of banks. Readiness of credit arranging, appropriate credit examinations, distributions, post authorize development and need based credit are the a few zones of credit the executives that needs improvement so as to decrease the NPAs. Banks ought to decrease reliance on premium pay Indian banks are to a great extent subject to the loaning and speculation as in contrast with created nations. Indian banks should search for sources (salary) from charge-based administrations and items. Credit Information Bureau India LTD (CIBIL) the regulation of data sharing game plan is presently conceivable through the recently shaped Credit Data Bureau of India Limited (CIBIL) it was set up in the year 2001, by SBI, HDFC, and two unfamiliar innovation accomplices. This will forestall the individuals who exploit absence of arrangement of data sharing among driving foundations to obtain enormous sum against same resources and property, which has in no measures added to the gradual of NPAs of banks.

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