THE IMPACT OF NPA OF PUBLIC AND PRIVATE SECTOR BANKS ON NET PROFIT OF SCHEDULED COMMERCIAL BANKS

[1] Aleena K Benny, [2] Steffi Catherine Dinesh, [3] Dr. Kavitha Jayakumar
[1] Research Scholar, [2]Research Scholar, [3] Associate Professor
[1]Department of commerce,
[1]Christ Deemed to be university, Bangalore, Karnataka

Abstract: *In India banking is one of the important part in the day to day lives of the citizens. The need of using banking facilities has become inevitable at present mainly due to demonetization. Most of the cash transactions are reducing day by day, and thus increasing the need of banking. Indian banking sector faces many difficulties and challenges, one of the main challenge is the growth in NPA (non-performing assets). It affects the net profit of the banks; NPA is one of the factors which indicate the credit worthiness of the banks. It needs to be controlled so that bank's financial health will not get affected. In our research we attempted to know the relationship between net profit and public and private sector banks NPA ratios. For which we have considered public and private sector banks NPA and studied its relationship towards the net profit of the scheduled commercial banks which includes public and private sector banks. From our study we found that public sector banks GNPA and NNPA has a strong relationship towards net profit, whereas private sector banks does not have a significant effect on the net profit ratio of the scheduled commercial banks*

Index Terms* – *Non-performing assets, public sector banks, private sector banks, net profit

I.INTRODUCTION

Banking sector is one of the most important sectors in the economic growth of the country, by regulating the flow of funds to the economy. (K, 2014).Over the last few years, Indian banking systems are facing many challenges like non-performing assets, technology, interest rate fluctuations, etc. (Srivastava). In this article we focus on non-performing assets of public sector and private sector as it is one of the major challenge facing by Indian banks. Non-performing assets reflects the health of the banking system. (Shajahan, 1998). Assets of the banking system include loans given and investment made by banks. Quality of the asset indicates how much of the loans taken by the borrowers are repaid in the form of interests and principal. An NPA can be defined as "a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment" (Rajput, Arora, & Kaur, 2011). In a recent report, it was shown that the amount of bad loans had increased from Rs. 0.1392 trillion to Rs. 10.36 trillion in a total span of 10 years where every year the figure was rising significantly. Currently, the gross NPA of all the banks in the country amounts to Rs. 8,40,958 crores. Among this figure, most of the NPA is of the state owned banks, and it still continues to pile up. The ratio of gross NPAs to gross advances of state-owned banks has increased to 13.41% in March 2018 as compared with 9.94% in March last year. Such an increase in the NPAs can have a very negative impact on the economy of the country as such situations will lead to a stress in the banking companies which will reduce the availability of money in the market, also making it difficult to fund other projects. The increase in NPAs will also be problematic for the general public as the banks will then increase their interest rates to maintain their profit margin.

II.LITERATURE REVIEW

The study was conducted to analyse the trend of the NPA in Public Sector Banks in India. This research critically evaluated the trend in movement of NPAs in public sector banks in India. They found that the NPAs need to be improved in public sector banks in India and this can be possible by improving the credit evaluation, appraisal and monitory systems in banks. As public sector banks holds more than 75% of total advances in Indian banking sector, any change in asset quality of public sector affects the Indian banking system.(K, 2014)

NPA results in declining margin and higher provisioning requirement for doubtful debts. This study states that the initiatives taken by regulatory bodies have helped bank to reduce their NPA and improve their financial health. (Rajput, Arora, & Kaur, 2011)

They found that the profit gradually decreases when the gross NPA increases. The losses due to NPA increase cannot be controlled only by providing provisions for NPA it just helps the bank to reduce the huge loss by a small amount. (Roy & Samanta, 2017)

NPA indicates banks efficiency on allocation of resources and credit risk they considered gross NPAs and gross advances as the indicators for their study. They found that asset quality increased when there is a change in the NPA percentages.(Srivastava)

Any agricultural advance should be treated as NPAs only when interest/instalment is not paid continuously for two half-years. Due to the netting method of RBI, the NPAs in priority sector looks excessive. (Shajahan, 1998)

The total NPAs were increasing yearly, NPAs as a percentage to total assets is constant, NPAs as a percentage to total advances is fluctuating. The growth trend in NPAs are fluctuating, provisions of NPAs are increasing.

The objective of this study is to determine the profitability indicators of the public sectors bank in India. They have used the secondary method of data collection and this study talks about credit deposit ratio investment deposit ratio, non-performing assets and non performing income are the main indicators of profit of the public sector banks. (Aggarwal, 2016)

The objective of this study is to empirically investigate the factors relate to NPA's of public sector banks .They have used both primary and secondary method for data collection. This study talks about two main factors internal and external. Internal factors are diversion of fund time overrun insufficient management and product obsolesce external factors are recession, natural calamities, change in govt. Policies etc. (Tamma Koti Reddy, 2010)

The objective of this study is bank specific determinants of non-performing assets of Indian banks . They have used the secondary method of data collection. This study talks about past performance is negatively related to the future NPA where past performance regarded as proxy of general efficiency. (Samaresh Bardhan, 2016)

The objective of this study is to find the determinants affecting the profitability of private sector banks in India. They have used primary method of data collection. This study talks about how private sector banks needs to cautions about the investment deposit ratio and also with the other independent variables like operational expenses NPA and provision and contingencies. (Aparna Bhatia, 2012)

The objective of this study is to study the performance of the banks and also to suggest the strategies to enhance the productivity. Secondary method is used for data collection. This study is done to give suggestions to banks how they should be more customer centric and they should be more proficient in managing assets and liabilities. (P.Hanuamntha Rao)

The objective is to study the impact of NPA's on bank. Secondary method is used for data collection. This study talks about how the NPA is comparatively very high in private sector banks and it has a direct impact on the profitability of the banks. (Singh, 2016)

The objective is to study to evaluate use and impact of financial management on overall performance of the state co-operative banks .Secondary method is used for data collection. This study talks about how poor HRM and financial management are responsible for incurring loss. (pandey, 2013)

The objective is to study to examine the banking industry scenario in India after the reforms. Secondary method is used for data collection. This study tells us how after the reforms the PSB's improved in customer service and also in performance in deposit income and expenditure including the management of NPA's. (Dr. I. Anand Pawar, 2013)

The objective is to compare the performance of public sector and private sector banks in India, to find out the trends in NPA level and to suggest various measures for NPA management. They have used the secondary method for the data collection. This study tells that the bank staff should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete with private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement.(Kajal Chaudhary, 2011)

They have used primary data collection through questionnaire method and direct interview method. This study tells that the NPA is the most import parameter for the performance of the banks and they have to have to work towards the improvement of the profitability of the banks. (Kalra, 2012)

This paper is main focus on the three major risks which public sector banks face today. The first one is that they are losing their market share; second, their decreasing profitability; and third, their balance sheets are not strong enough. The reasons for these problems are many. This paper discusses on the various reasons for these three. Secondary method is used for data collection. (Chaudhuri, 2002)

III.RESEARCH GAP

Based on our brief review of literature, we found that all the articles we reviewed have studied NPA only by using GNPA i.e. gross non-performing assets, but it is also important to consider the NNPA i.e. net non-performing assets. In this study we are aiming at public sector and private sector banks and find out which sector is performing better in terms of their NPAs. This study also analyses the trend in NPAs in each sectors

IV.OBJECTIVE OF THE STUDY

To assess the effect of non-performing assets on bank’s net profits

V.RESEARCH METHODOLOGY

- This study is conducted on public sector banks and private sector banks in India for the period of 2005-2017 (13 years)
- The data is collected from the Reserve Bank of India “report on trend and progress of banking” and other publications of RBI
- The collected data is analysed using excel regression and to check the relationship of independent and dependent variable

VI.SCOPE OF THE STUDY

- The study shows the effect of NPAs on the selected banks and thus helps investors to know which sector has a scope for healthy and safe investment
- This study helps banks to understand their position among their competitors

VII.LIMITATIONS

- The study of NPAs is limited to public and private sector banks till the end of the year 2017
- There are limited variables used in this study
- Secondary data is used for this study and therefore the data might not be accurate

VIII.VARIABLES

- NNPA and GNPA ratio of public sector banks (independent)
- NNPA and GNPA ratio of private sector banks (independent)
- Net Profit ratio (dependent)

IX.DATA ANALYSIS

Year	public sector banks GNPA	private sector banks GNPA	public sector banks NNPA	private sector banks NNPA	public sector banks GNPA ratio	private sector banks GNPA ratio	public sector banks NNPA ratio	private sector banks NNPA ratio	scheduled commercial banks net profit	NP ratio
2004-05	483.99	87.82	169.04	42.12	5.5	4.4	2.1	2.2	210	9.1
2005-06	413.58	78.11	145.66	31.71	3.6	2.5	1.3	1.0	246	9.0
2006-07	389.68	92.56	151.45	40.28	2.7	2.2	1.1	1.0	312	8.8
2007-08	404.52	129.97	178.36	56.47	2.2	2.5	1.0	1.1	427	8.6
2008-09	449.57	169.26	211.55	74.11	2.0	2.9	0.9	1.3	528	8.8
2009-10	599.26	176.39	293.75	65.05	2.2	2.7	1.1	1.0	571	8.7
2010-11	746.00	181.00	360.00	43.00	2.4	2.3	1.2	0.5	703	8.1
2011-12	1172.62	229.68	592.05	57.01	3.3	2.1	1.5	0.6	817	9.1
2012-13	1644.61	262.81	899.52	79.94	3.6	2.0	2.0	0.7	912	9.4
2013-14	2272.64	245.42	1303.62	88.62	4.4	1.8	2.6	0.7	809	12.0
2014-15	2784.68	341.06	1599.51	141.28	5.0	2.1	2.9	0.9	891	12.0
2015-16	5399.56	561.86	3203.76	266.77	9.3	2.8	5.7	1.4	341	33.3
2016-17	6847.00	932.00	3831.00	478.00	11.7	4.1	6.9	2.2	439	27.5

From the above table it is clear that the NPAs in the banking sector are increasing at a very large level. We can see that GNPA ratio has increased from 5.5% to 11.7% in the public sector banks whereas in case of private sector there is no much fluctuation it is showing a reducing trend. Till 2008-09 there is a decreasing trend and thereafter it has an increasing trend at large rate. The same way even NNPA ratio also shows the same trend as the GNPA ratios.

When we see the net NPA, we can see that it had reduced a little till 2006-07 and from then on it has increased at a large rate to reach Rs.6847 billion in public sector and Rs.932 billion in private sector

X.REGRESSION

1. Public sector banks GNPA ratio and net profit ratio

Regression Statistics	
Multiple R	0.904573829
R Square	0.818253813
Adjusted R Square	0.801731432
Standard Error	1.3086569
Observations	13

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	84.81389598	84.81389598	49.52396572	2.16189E-05
Residual	11	18.83841171	1.712582883		
Total	12	103.6523077			

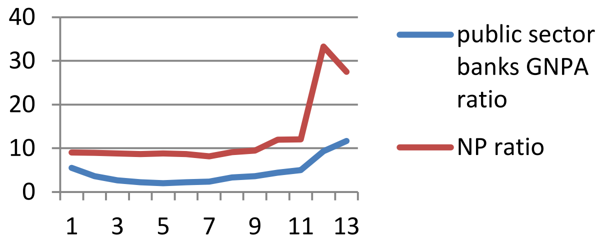
	Coefficients
Intercept	0.278937933

X Variable 1	0.330268196

The multiple R shows the correlation coefficient relationship of Public sector banks GNPA ratio and net profit ratio. This shows how strong the linear relationship is. As the value is almost 1 (0.904), it has positive strong relationship between two variables. From the R^2 we found that 81% of change in net profit ratio is caused by the change in GNPA ratio of public sector banks. From the above test output we get the approximate linear equation:

y = 2.789 + 3.302x

Where, y is the dependent variable (net profit ratio) and x is the independent variable (Public sector banks GNPA). From this linear equation, we can approximately predict the trend in net profit ratio.



2. Private sector banks GNPA ratio and net profit ratio

Regression Statistics	
Multiple R	0.350402636
R Square	0.122782008
Adjusted R Square	0.043034917
Standard Error	0.766759471
Observations	13

ANOVA

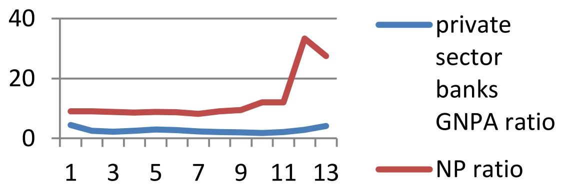
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.905186739	0.905186739	1.539642478	0.240482941
Residual	11	6.467120953	0.587920087		
Total	12	7.372307692			

	Coefficients
Intercept	2.214850808
X Variable 1	0.034119475

The multiple R shows the correlation coefficient relationship of Private sector banks GNPA ratio and net profit ratio. This shows how strong the linear relationship is. As the value is 0.3504, it has positive weak relationship between two variables. From the R^2 we found that only 12% of change in net profit ratio is caused by the change in GNPA ratio of private sector banks, which is not a significant change and therefore this sector does not affect the profitability much. As the significance value in this test is greater than 0.05, we accept the null hypothesis and conclude that there is no significant relation between dependent and independent variable. Therefore we cannot use private sector banks GNPA ratio to interpret the net profit ratio. From the above test output we get the approximate linear equation:

y = 22.149 + 00.341x

Where, y is the dependent variable (net profit ratio) and x is the independent variable (Private sector banks GNPA). From this linear equation, we can approximately predict the trend in net profit ratio



3. Public sector banks NNPA ratio and net profit ratio

Regression Statistics	
Multiple R	0.938456577
R Square	0.880700748
Adjusted R Square	0.869855361
Standard Error	0.680255553
Observations	13

ANOVA

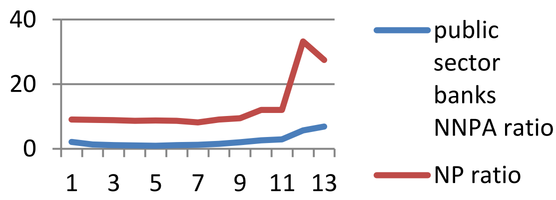
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	37.57746851	37.57746851	81.20510416	2.07038E-06
Residual	11	5.090223797	0.462747618		
Total	12	42.66769231			

	Coefficients
Intercept	-0.448158073
X Variable 1	0.219835086

The multiple R shows the correlation coefficient relationship of Public sector banks NNPA ratio and net profit ratio. This shows how strong or weak the linear relationship is. As the value is almost 1 (0.9), it has positive strong relationship between two variables. From the R^2 we found that 88% of change in net profit ratio is caused by the change in NNPA ratio of public sector banks, which is not a significant change and therefore this sector does not affect the profitability much. From the above test output we get the approximate linear equation:

y = -04.481 + 02.198x

Where, y is the dependent variable (net profit ratio) and x is the independent variable (Public sector banks NNPA). From this linear equation, we can approximately predict the trend in net profit ratio



4. Private sector banks NNPA ratio and net profit ratio

Regression Statistics	
Multiple R	0.477819772
R Square	0.228311734
Adjusted R Square	0.158158255
Standard Error	0.498557089
Observations	13

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.808926037	0.808926037	3.254460626	0.098652976
Residual	11	2.734150886	0.248559171		
Total	12	3.543076923			

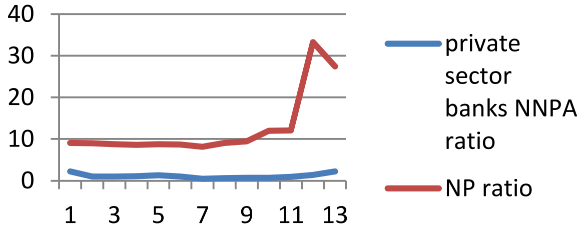
	Coefficients

Intercept	0.715351461
X Variable 1	0.032254303

The multiple R shows the correlation coefficient relationship of Private sector banks NNPA ratio and net profit ratio. This shows how strong or weak the linear relationship is. As the value is 0.4778, it has positive weak relationship between two variables. From the R^2 we found that only 22% of change in net profit ratio is caused by the change in NNPA ratio of private sector banks, which is not a significant change and therefore this sector does not affect the profitability much. From the above test output we get the approximate linear equation:

y = 07.153 + 00.322x

Where, y is the dependent variable (net profit ratio) and x is the independent variable (Private sector banks NNPA). From this linear equation, we can approximately predict the trend in net profit ratio



XI.CONCLUSION

Indian banking industry mainly consists of public sector banks, it holds almost 2/3rd shares in the banking industry. From the data we used for our research, we found that there is a huge increase in the gross and net NPA in both private and public sector banks in the last two years. There has been a huge growth in the NPA from 2011-12 onwards, but when we see the net profit ratio, it showed a less growth rate till 2014-15, but there was a huge growth in the next year (2015-16), it reduced again in 2016-17. This shows that if the NPA grows beyond a limit, the net profit will get affected negatively. From the regression test we did on the four independent variables, we found that private sector bank GNPA ratio and NNPA ratio have very less relation to the dependent variable net profit ratio; therefore we cannot use it to predict the future net profits. The test result shows that NNPA and GNPA ratios of public sector banks have a strong positive relationship with the net profit of scheduled commercial banks. Public sector banks cause more variations in the net profit of banks than private sector banks. Since the volume of NPAs cause the financial health of the banks, it is important to make sure that the NPA level has to be maintained. Necessary steps should be taken by banks to reduce non-performing assets.

XII.REFERENCES

1. Aggarwal, P. (2016). An Empirical Evidence Determining Profitability Indicators of Indian Public Sector Banks. *International Journal of Economic Perspectives*, 93-101.
2. Aparna Bhatia, P. M. (2012). Determinants of Profitability of Private sector banks in india. *Journal of Commerce and Accounting Research*, 14-22.
3. C.S.Balasubramaniam. (n.d.). NON PERFORMING ASSETS AND PROFITABILITY OF COMMERCIAL BANKS IN INDIA: ASSESSMENT AND EMERGING ISSUES. *NATIONAL MONTHLY REFEREED JOURNAL OF REASEARCH IN COMMERCE & MANAGEMENT*, 41-52.
4. Chaudhuri, S. (2002). Some Issues of Growth and Profitability in Indian Public Sector Banks. *Economic and Political Weekly*, 2155-2162.
5. Dr. I. Anand Pawar, M. P. (2013). FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS IN INDIA. *INTERNATIONAL JOURNAL OF MANAGEMENT RESEARCH AND REVIEW*, 3668-3676 .
6. Indira Rajaraman, G. V. (2002). Non-Performing Loans of PSU Banks: Some Panel Results. *Economic and Political Weekly*, 429-431,434-435.
7. K, S. K. (2014). A Study on Non Performing Assets of Public Sector Banks in India With Special Reference to State Bank of Travancore. *school of management studies*, 293.
8. K.K. Siraj, P. S. (2013). Efficiency of NPA Management in Indian SCBs - A Bank-Group Wise Exploratory Study. *Journal of Applied Finance & Banking*, 123-137.
9. Kajal Chaudhary, M. S. (2011). Performance of Indian Public Sector Banks and Private sector banks : A Comparative Study . *International Journal of Innovation, Management and Technology*, 249-256.
10. Kalra, R. (2012). Non-Performing Assets of Commercial Banks: A Case Study. *The IUP Journal of Monetary Economics*.
11. P.Hanuamntha Rao, B. P. (n.d.). Examining the Performance of Banks Operating in India: A Study for the Period 2005-10. *Drishtikon Management Journal*.
12. pandey, s. k. (2013). Evaluation of financial Management and its impact on overall performance of Bank: a study of state co-operative Bank. *Journal of Commerce and Accounting Research*.

13. Rajput, N., Arora, A. P., & Kaur, B. (2011). Non-performing assets in Indian public sector banks: an analytical study. *Banks and Bank Systems*, 84-89.

14. Roy, P., & Samanta, D. P. (2017). ANALYSIS OF NON PERFORMING ASSETS IN PUBLIC SECTOR BANKS OF INDIA. *nternational Journal of Management*, 21-29.

15. Samaresh Bardhan, V. M. (2016). Bank-specific determinants of nonperforming assets of Indian banks. *Int Econ Econ Policy*, 483-498.

16. Shajahan, K. M. (1998). Non-Performing Assets of Banks Have They Really Declined? And on Whose Account. *Economic and Political Weekly*, 671-674.

17. Singh, V. R. (2016). A Study of Non-Performing Assets of Commercial Banks and it's recovery in India. *Annual Research Journal of SCMS*, 110-125.

18. SINHA, S. (2012). Public and Private Sector Banks: Convergence in Performance. *Economic and Political Weekly*, 25-30.

19. Srivastava, V. (n.d.). A STUDY ON NON-PERFORMING ASSETS OF INDIAN BANKS. *GYANPRATHA-ACCMAN Journal of Management*, 10.

20. Tamma Koti Reddy, S. A. (2010). Creation of Non-Performing Assets in the Banking Sector (with special reference to State Bank of India). 53-68.