

# A CRITICAL ANALYSIS ON IMPACT OF NPAs ON PERFORMANCE AND PROFIT TRENDS OF THE HDFC AND STATE BANK OF INDIA

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## **ABSTRACT**

A vigorous banking segment is extremely noteworthy for sound economy. One in everything about principal fundamental and significant jobs fight by banking division is that of loaning business. It's generally enlivened because of it's the consequence of assets being moved from the framework to beneficial capacities that conjointly results into economic cycle. The disappointment of the banking area could have Associate in nursing unfavorable effect on various parts. Non-playing assets zone unit one in everything about primary contemplations for banks in India. NPAs reflect the performance of banks. An Explorative find out about was once received to accomplish the goals of the study, and they find out about used to be done in SBI Bank, "Non-Performing Assets". The target of the study is to break down the NPA stage, how some separation the budgetary association has been effective in diminishing the NPA level. This paper is an endeavor to look at the non-performing assets of SBI and HDFC Bank utilizing the secondary data examination and to remark on their individual performances as well. This study additionally distinguishes the cause of the expanding non-performing assets in the Banks with barely any proposals have likewise been broadened.

*Keywords: Nonperforming assets HDFC, SBI, trends, Net profit, gross profit etc.*

## **1. INTRODUCTION**

### **1.1 Overview**

India being a creating nation has been advancing since freedom with the extraordinary help of banking framework in the nation. The part of business bank in the advancement of the nation is considered as a benchmark. For the high pace of capital development the function of business bank has no some other option. In any case, yet India needs a lot of advancement and development for the future time where again the banking framework will turn into an achievement however the banking framework has just a single huge issue that is of Non Performing Assets. As a rule, the non performing assets are discovered all the more relatively in the public division banks in contrast with private bank because of liberal standards for the obligation recuperation. Presently a days the RBI has given strick rules to decrease NPA,s in the

banks and because of that the extent of NPA,s has diminished up to the degree yet not all together.

Banking division is fundamental field for the development of economy of any nation. Banking part might be considered as basic job player for Expansion of economic division just as improvement of it. Banks assume a part of mediator among savers and searchers of account. Presently days, Banking division is confronting an issue of Non-Performing Assets and NPA increments continuously. This circumstance of banking part is horrendous for the entire economy of India. In India banks are predominantly separated into two divisions specifically Private area banks and Public part banks. The two sorts of banks give advances to various classes of clients according to the standards of Reserve Bank of India.

According to the standard of RBI areas for loaning are mostly separated into two sections:

- Priority sector
- Non priority sector

The two parts have sub classes for example Agribusiness, Industry, Service and Personal loan. Need segment loaning implies gives loaning to those foundation which face troubles to get credit. According to the bearing of RBI planned business banks need to loan 40% of their loan to Priority parts (estimated with respect to Adjusted Net Bank Credit or ANBC).

## 1.2 NPA

**Non-Performing Assets:** Any loan reimbursement, which is late 180 days past or two quarters, is considered as NPA. Non Performing Assets: NPA emerges when banks can't recoup the loan sum from their clients. The clients disrespect installment of their loans alongside pace of intrigue. At the point when installment falls due for over ninety days, the assets are called non-performing assets. They are characterized into three classes based on period for which they remain due and no sum is acknowledged from them.

### 1.2.1 Meaning of NPA in the eyes of RBI

Loaning highlights of coming up next are considered as Non-performing Asset

- Interest and/or portion of chief stay late for a time of over 90 days in regard of a Term Loan
- The account stays 'Faulty' for a time of over 90 days, in regard of an Overdraft/Cash Credit (OD/CC).
- The charge stays past due for a time of over 90 days on account of bills bought and limited,
- In the instance of direct rural advances the late standard determined at Para 2.1.5 would be material. In regard of horticultural loans, other than those predefined ID of NPAs would be done on a similar premise as non-farming advances.
- Any sum to be gotten stays past due for a time of over 90 days in regard of different records.

### 1.2.2 Causes of NPAs:-

- **Willful Defaults:-** The Indian Public Sector Banks are most noticeably awful hit by these defaults. It is a default in reimbursement commitment.

- Kingfisher Airlines Ltd. Is one among a significant number of those obstinate defaulters? Other is Beta Naphthol, Winsome Diamonds and Jewelry Ltd., Rank Industries Ltd., XL Energy Ltd. and so on.

- **Industrial Crisis:-** Industries rely upon banks to satisfy their ventures. In the event that industry is in emergency, it will undoubtedly hit the banking sector and their NPA will rise.

- **Credit distribution Mis-management:-** Often poorly disapproved of borrowers pay off bank officials to get loans with an aim of default.

- **Lenient Lending Norms:-** One of the primary reasons of rising NPAs is the permissive Lending Norms particularly for corporate honchos where their money related status and credit rating isn't investigated appropriately.

### 1.2.3 Impact / Effects of NPA on Banks

A vigorous Banking sector is significant for prosperous economy. The disappointment of the Banking sector may adversatively affect different sectors. NPAs are one of the significant worries for Banks in India. The main issue that hampers the conceivable budgetary introduction of the Banks is the combined consequences of the NPAs. NonPerforming Assets don't create premium pay for the Banks, however a similar time Banks are needed to make necessities for such NPAs from their contemporary profits.

- They granulate down current profits through provisioning prerequisites.
- They bring about decreased intrigue salary.
- They need higher provisioning necessities influencing profits and expansion to capital.
- They limit reusing of assets, set in assets-liability bungs, and so forth.
- Adverse sway on Capital Adequacy Ratio
- Bank's rating and generosity gets influenced.
- Bank's expense of raising assets goes up.
- Bad impact on value esteem.

### 1.2.4 Solution to NPA:-

- **SARFAESI Act:-** The demonstration improves the banks/Financial Institutions (FIs) to recoup their NPA through obtaining and discarding the made sure about assets in NPA account with extraordinary measure of Rs. 1 Lakh or more.
- **DRT Act:-** The demonstration gives setting up of Debt Recovery Tribunals and Debt Recovery Appellate Tribunals for undertaking and restrictive removal of suits documented by banks/FIs for recuperation of their contribution in NPA account with remarkable measure of Rs. 10 Lakh or more.
- **Lok Adalat:-** Lok Adalat system offers commonly adequate method of settlement of questions. Govt has exhorted PSBs to use this system to its fullest potential for recuperation in NPA cases.

Every now and then numerous Norms have been confined to get a grip over rising NPA. What's more, these Norms have been end up being valuable. However, out of all these, SARFESI Act, 2002 and DRT Act end up being generally gainful among all.

## 2. LITERATURE REVIEW

**Abidhusain Kadiwala, et al (2020)** - Banking industry assumes an indispensable function for the advancement of economy of any nation. Non-performing assets have become a horrendous factor for Indian banking industry. The current exploration completes to think about the Non-performing assets of chose Public sector banks and Private sector banks for the time of 2015 to 2019. This study plans to perform examination of private sector banks and public sector banks of India by the mean of Non-performing assets. It is found in the study that effectiveness to cover obligation of private sector banks is better than Public sector banks. Public sector banks face issue of substantial NPAs henceforth; Government and Regulatory power should find a way to control the NPAs of the banks.

**Priyanka Jha, et al (2019)** - Foundation At present the NPAs are viewed as a major issue in banks. Target this study is directed to break down the non-performing assets (NPAs) among state bank of India (SBI) and ICICI. Strategy The study is being finished by utilizing seven years (2011-2018) data assembled from yearly reports. Results There was no noteworthy

change in Gross NPAs/Gross advances proportion, Gross NPAs/Total assets proportion; Net NPAs/Net advances proportion and Net NPAs/Total assets proportion with SBI bank when contrasted with ICICI bank. In SBI, there is critical negative connection between's Gross NPA and Net Profit and between Net NPA and Net Profit. In ICICI bank, negative connection between's Gross NPA and Net Profit and Net NPA and Net Profit yet then it was not critical as in SBI bank. Absolute arrangement proportion was altogether higher in ICICI bank when contrasted with SBI bank. Nonetheless, Shareholder's danger proportion was equivalent among both ICICI bank and SBI bank. Notwithstanding there was critical lessening of sum exceptional in ICICI bank as contrast with SBI bank. Anyway arrangement subsequently (of absolute assets) was similar among SBI bank and ICICI bank. Conclusion The study explain that the extent of NPAs is expanding in SBI bank when contrasted with the ICICI banks. Consequently SBI bank needs to give exceptional consideration on their successful attempting to contend with ICICI banks. Catchphrases: Non-Performing Asset, Gross NPA, Net NPA, Priority Sector and Non-Priority Sector.

**Chetan Dudhe, et al (2017)** - Non-performing Asset is an essential factor in the assessment of budgetary performance of a bank. Non Performing Asset is the key term for the banking partnerships. Non Performing Assets show the skill of the performance of the banks. Non Performing Assets implies which sum isn't gotten by the bank consequently of loans dispensed. Non Performing Assets influence the money establishment as well as the absolute budgetary framework. Hence a specific study has been done on public sector banks in India to assess the impact of Non Performing Assets on the profitability of banks. Banks today are not made a decision about just based on number of branches and volume of stores yet in addition based on standard of assets. NPAs contrarily influence on the profitability, liquidity and dissolvability of the banks. This paper examinations the conditions of NPAs in chose banks in particular State Bank of India (SBI), Bank of India, United Bank of India, Bank of Baroda, Indian Overseas Bank, Punjab National Bank and Central Bank India. It likewise features the strategies followed by the banks to handle the NPAs and proposes a multi-pronged procedure for fast recuperation of NPAs in banking sector. Seven Public Sector Banks has been chosen for the study the connection between Gross NPA and Net Profit of seven banks. In this paper is applying the board relapse. The outcome shows that aside from SBI and PNB the various banks display a negative relationship between's their gross Non Performing Assets and net profits. However, SBI and

PNB is expanded the net profit each year not influenced by Gross Non Performing Assets. The two banks are focusing towards their NPA to recuperate their forthcoming loans. The study depends on secondary data recuperated from Report of Progress of banking in India, Websites, Journals and Articles. The extent of the study is restricted to examination of nonperforming assets of public sector banks covering the time of 2007-2016.

**KALPESH GANDHI (2015)** – After the advancement of banking framework, the turn of events and development has gotten instant as bank gives a lot to the better and expedient capital arrangement in the economy. Banking framework has given a more noteworthy measure of office for the money related change of the economic action which is a significant instrument for the turn of events and development. Be that as it may, there are a few challenges as well, in the smooth running of the banking framework. Perhaps the greatest trouble is the non performing assets of a bank. To concede loan is anything but a major test yet the recuperation that loan is probably the greatest issue. In the current paper, the detail, causes and proposal of the NPA.

**Dhani Shanker Chaubey, ET AL (2015)** - A solid banking sector is significant for prospering economy. The disappointment of the banking sector may adversely affect different sectors. Non-performing assets are one of the significant worries for banks in India. NPAs mirror the performance of banks. A significant level of NPAs proposes high likelihood of an enormous number of credit defaults that influence the profitability and total assets of banks and furthermore dissolves the estimation of the advantage. The NPA development includes the need of arrangements, which diminishes the general profits and investor esteem. The issue of Non Performing Assets has been examined finally for money related framework everywhere on over the world. The issue of NPAs isn't just influencing the banks, yet additionally the entire economy. Indeed elevated level of NPAs in Indian banks is only an impression of the condition of strength of the industry and exchange. NPA assumes a significant part in performance estimation of any bank as it diminishes the general profitability of the bank. In this examination paper the performance of the two public banks, for example State Bank of India and Punjab National Bank in worry with NPA the executives is assessed. Through this paper, it has been attempted to investigate how productively these two public sector banks are dealing with their NPAs with

the assistance of different money related and factual apparatuses..

### 3. OBJECTIVES OF THE STUDY

The objectives of study are-

- To examine and compare the NPA trends of SBI and HDFC for past years.
- To study the impact of non-performing assets (NPA)
- To analyze which Bank (SBI and HDFC) is better in managing NPA's.
- To list the causes of the occurrence of NPA in both the Banks.
- To check whether there exist any relationship between Net Profit and Net NPA in case of both the Banks.

### 4. Research Methodology

#### 4.1 Data Collection

The current study depends on secondary data examination. The data has been gathered from different web sources like yearly reports of separate Banks, data releases and diaries. The data gathered were broke down with the assistance of statistical tools like Ratio analysis, and pattern analysis.

#### 4.2 Data Analysis

Tables are utilized to speak to the merged data. Graphical portrayal is likewise utilized for better cognizance and introduction

#### 4.3 Variables of the study

Here, NPA is the free factor and net profit is the reliant variable. So we check whether because of any adjustments in the net NPA, the net profits change or not, if truly, regardless of whether decidedly or adversely.

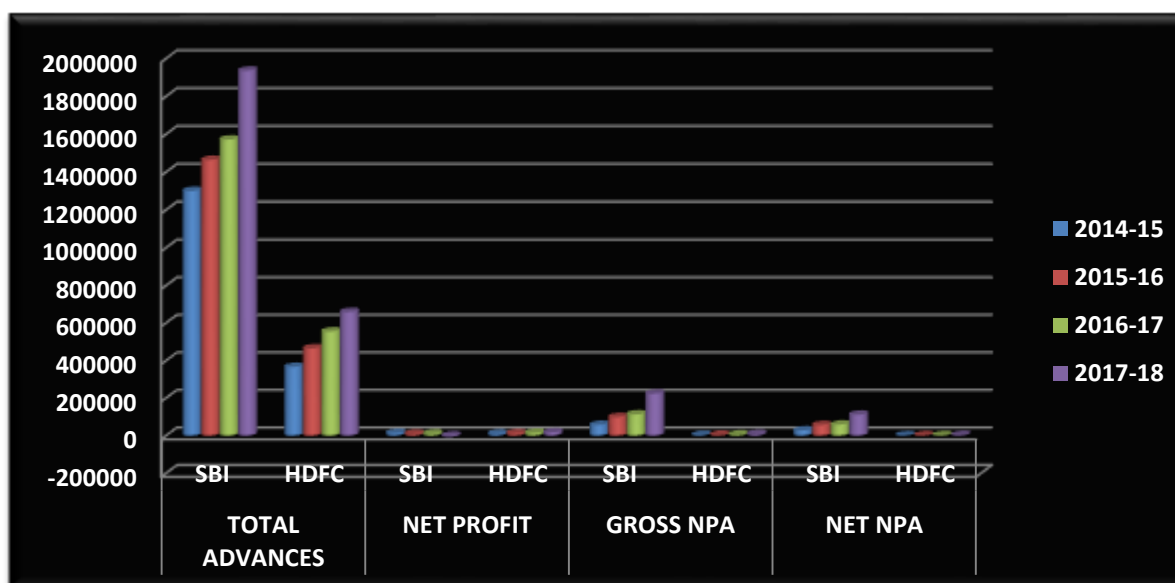
### 5. DATA ANALYSIS AND RESULT

In the beneath area, different parameters identified with NPA are thought about and dissected. Right off the bat, the absolute advances, net profits, net NPA and net NPAs have been looked at for both the Banks.

Table 1: Net Profits, GNPA and net NPAs of the banks

| YEAR    | TOTAL ADVANCES |           | NET PROFIT |          | GROSS NPA |         | NET NPA   |         |
|---------|----------------|-----------|------------|----------|-----------|---------|-----------|---------|
|         | SBI            | HDFC      | SBI        | HDFC     | SBI       | HDFC    | SBI       | HDFC    |
| 2014-15 | 1300026        | 365495.03 | 13102      | 10215.92 | 56725.34  | 3438.38 | 27590.58  | 896.28  |
| 2015-16 | 1463700        | 464593.96 | 9951       | 12296.21 | 98172.80  | 4392.83 | 55807.02  | 1320.37 |
| 2016-17 | 1571078        | 554568.20 | 10484      | 14549.64 | 112342.99 | 5885.66 | 58277.38  | 1843.99 |
| 2017-18 | 1934880        | 658333.09 | -6547      | 17486.73 | 223427.46 | 8606.97 | 110854.70 | 2601.02 |

<https://www.moneycontrol.com/financials/hdfcBank/balance-sheetVI/HDF01#HDF01>



Secondly, the examination of the NPA trends for both the Banks for the last 4 years has been done.

Table 2: Gross NPA

| YEAR    | PERCENTAGE |        |
|---------|------------|--------|
|         | SBI %      | HDFC % |
| 2014-15 | 4.25       | 1.30   |
| 2015-16 | 6.5        | 1.05   |
| 2016-17 | 9.11       | 0.94   |
| 2017-18 | 10.91      | 0.90   |

*\*<https://www.moneycontrol.com/financials/hdfcBank/balance-sheetVI/HDF01#HDF01>*

Capital Adequacy Ratio can be characterized as proportion of the capital of the Bank, to its assets, which are weighted/balanced by risk appended to them i.e.

Table 3: Capital adequacy ratio

| Name of the Bank    | Capital adequacy ratio |
|---------------------|------------------------|
| State Bank of India | 13                     |
| HDFC Bank           | 15                     |

Each Bank needs to make the capital Reserve to remunerate the Non-Performing Assets. Here, HDFC Bank has indicated Better capital amplenness proportion with 15% as contrast with SBI with 13%.So, we can

say that HDFC Bank has a lot of intensity than SBI to make up for NPAs. Arrangements are to be made for to keep wellbeing against the NPA, and it legitimately influence on the gross profit of the Banks.

Table 4: Provision Ratio

| NAME OF BANK | PROVISION RATIO |
|--------------|-----------------|
| SBI          | 65.95           |
| HDFC         | 78.7            |

This Ratio demonstrates the level of wellbeing estimates received by the Banks. It has direct bearing on the profitability; The most noteworthy arrangement proportion is appeared by HDFC Bank with 78.7 % when contrasted with State Bank of India with 65.95 %.

## 6. CONCLUSION

NPAs are a major concern for Indian banking sector and especially for public sector banks. From the study, it is apparent that the connection between the Gross NPAs and Gross Advances is positive. Helpless credit risk examination and loan checking in banks is one of the explanation. Another explanation is acknowledgment of the task with expanded expense and forceful projections because of absence of specific assessing aptitudes required for such ventures. The current study infers that non-performing assets is a greatest test looked by both HDFC Bank and State Bank of India as it prompts ruin in liquidity parity of the Banks and makes terrible obligations on them. Profitability is being influenced because of the vacillations in NPA levels throughout the long term. On contrasting the two Banks dependent on the impact on its profitability, SBI has higher NPAs when contrasted with HDFC Bank. Because of its public nature Since SBI is a public sector Bank, it is more defenseless against abandon the profits of the loans reached out to the overall population. One other explanation behind high NPAs can be a sharp ascent in the provisioning of the terrible loans. Other than rising NPA, SBI has not dealt with its profits predictable, which portrays that the general administration of the resources of the Bank isn't better. The Non-performing assets would abrogate the ongoing profit, intrigue income because of huge arrangements of the Non-performing assets, and would agitate the smooth working of the reutilizing of the assets.

## 7. SUGGESTIONS

- The Banker should take most extreme consideration by guaranteeing that the endeavor or business for which a loan is looked for is a sound one and the borrower is equipped for doing it effectively; he ought to be an individual of high uprightness, validity and great character.

- Banker ought to inspect the accounting report which shows the genuine image of business will be uncovered on examination of profit/misfortune a/c and monetary record. While broadening loans, Banks ought to analyze the motivation behind the loan.
- The issue ought to be distinguished early with the goal that organizations can make an honest effort to stop a benefit or A/C turning out to be NPA and Bank should make an honest effort to recoup NPAs.

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