

Impact of npa on banking profitability (Special reference with Axis Bank)

¹ Dr. S.K Thakur, ² Smt. Hemlata Verma

¹ Professor, ² Research Scholar

¹ Govt Maharani Laxmibai (Autonomus) College Bhopal, MP, India

² Barkatullah University Bhopal, MP, India

Abstract The banking sector plays a key role in the economic development of our country. It forms the hub of the financial sector of an economy. The core business of banking is to collect deposits from the public and lending it to individuals and organizations. Accepting deposits do not involve any loss. But, lending business always involves much risk because the borrower may not be able to repay the loan within the stipulated time. Previously, the banks did not bother about asset quality rather they concentrated on expanding, generating employees, the branches and lending to priority sector. As a result, the asset quality of the banks started falling day by day and the stress of Non Performing Assets became a major concern for the banks. Nowadays banks have become very vigilant in extending loans because of the rising nonperforming assets. Non performing assets are an obligatory burden for each banking industry. NPA is a big challenge for the banking sector. The study is based on secondary data. Paper present the trend, status and impact of NPA on AXIS bank profitability during the period of 7 years from 2009 to 2015. Many articles research paper have been reviewed to present and analyse data. The data were analysed using correlation by using SPSS software version 23 and NPM, ROA, NIM and OPM were used as financial performance variable and NPA as independent variable. The finding and analysis shows that there is no significant impact of NPA on AXIS bank financial performance in the period under study.

Key word- Non performing Assets, Return on assets, Net interest Margin, Net profit Margin, Operating Profit Margin.

I Introduction

NPAs are those assets for which interest is overdue for more than 90 days. Gross NPA ratio is calculated by dividing total gross NPA to total advance. Net NPA ratio is calculated by dividing net NPA to Net advance. Net NPA and net advance are calculated by deducting provision from GNPA and total advance constitutively. GNPA and NNPA ratio helps to identify the quality of earning assets, that a bank issued to public for economic development. It is very important for a bank to bring down fresh addition. NPA ratio is a best indicator to analyse the financial health of the banking sector NPAs affect the operation efficiency which turn affects profitability.

II Review of Literature

Pach Malyadri (2011) in his research paper title “ A comparative Study on NPAs in India banking Industry” analyze NPA in weaker sections of public Sector banks and private sector banks specifically in India . The study observed that there is increase in advances over the period of the study. However, the basis of analysis that there is significant improvement in the management of NPAs of the public sector banks in India. It is suggested that government should RBI for upliftment of public sector banks. PSBs should try to upgrade technology and should formulate customer friendly policies to face competition at national and international level. K. Veerakumar (2012) presented a research paper on “ NPAs in priority Sector: A Threat to Indian Scheduled Commercial banks. In this paper he analysed to gain in sights into the position of NPAs in priority sector advances by scheduled commercial Banks (SCBs) i.c. public, old and new private and foreign banks have been considered. To analyze ratio analysis, Average , percentage, polynomial Trend analysis co- efficient correlation and multiple linear regression analysis and ‘t’ test have been used.

III Research problem and objectives

The NPA indicate the financial health of banking sector. The purpose of this study is to canvass the impact of NPA on the profitability of AXIS Bank for the period of 2009-2015.

IV Research Hypothesis

H₀₁ There is no significant impact of NPA on AXIS bank profitability.

V Population and Sampling

The population of interest for this study was Axis bank. Duration under study is 7years which is from 2009 to 2015.

VI Data and methodology

The study is based on secondary data. The paper talk over the conceptual framework of NPA on AXIS bank profitability during the period of 7 years from 2009 to 2015.

VII Description of variables for Axis Bank.

To provide a clear picture of financial performance under the study the descriptive static namely mean,standard deviation value computed for the sample observation of Axis bank in India for 7year period.

Table 1 Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ANPM	7	13.22	17.12	15.7743	1.29571
AROA	7	1.27	3.07	1.8157	.57671
ANIM	7	2.58	3.46	3.1543	.28471
AOPM	7	7.64	14.15	11.0257	2.27546
AGNPA	7	1.06	1.46	1.2271	.14795
Valid N (listwise)	7				

SPSS version 23

Table 1 performance key factor of Axis bank

years	Dependent Variables				Independent variables
	ANPA	AROA	ANIM	AOPM	AGNPA
2008-2009	13.22	1.27	2.58	7.64	1.10
2009-2010	16.14	1.58	3.14	11.12	1.26
2010-2011	17.12	1.65	3.19	11.77	1.12
2011-2012	15.47	1.65	3.13	9.14	1.06
2012-2013	15.35	1.70	3.18	10.12	1.22
2013-2014	16.34	3.07	3.40	13.24	1.37
2014-2015	16.78	1.79	3.46	14.15	1.46

Axis bank annual report 2008-2009 to 2014-2015

Table 3 Hypothesis Results

Variables	R	R ²	degree of freedom	T-TEST		hypothesis results
				calculated value / p-value	t-tabulated value /p-value	
net profit	.488	.24	5	1.25/.266	2.57/0.05	Rejected
return on assets	.549	0.30	5	1.46/.202	2.57/0.05	Rejected
net interest	.708	.50	5	2.24/.075	2.57/0.05	Rejected
operating profit	.851 [†]	.72	5	3.63/.015	2.57/0.05	Acceted

VIII CORELATION ANALYSIS

Correlation analysis measure the relationship between two item. The resulting value (called the correlation coefficient) shows if changes in one item will result in changes inthe other item. correlation is a way to index the degree to which two or more variables are associated with or related to each other. the above table 3 show that -

- There is positive relationship between Net Profit Maring and Gross Non Performing Assets calculated t -value is less than tabulated t- value. p- value is more than 0.05 that shows there is no linear relation ship between net profit and gross non performing assets.
- There is positive relationship between return on assets and Gross Non Performing Assets calculated t -value is less than tabulated t- value. p- value is more than 0.05 that shows there is no linear relation ship between net profit and gross non performing assets.
- There is positive relationship between net interest margin and Gross Non Performing Assets calculated t -value is less than tabulated t- value. p- value is more than 0.05 that shows there is no linear relation ship between net profit and gross non performing assets.
- There is positive relationship between operating profit and Gross Non Performing Assets calculated t -value is more than tabulated t- value. p- value is less than 0.05 that shows there is no linear relation ship between net profit and gross non performing assetsa

IX Conclusion

According to RBI, term loan on which interest or installment of principle remains overdue for a period of more than 90 days from the end of a particular quarter is called a non performing assets. Higher ratio the raising bad quality of loans. it helps identify the quality of assets that bank posses. Bank need to bring down fresh addition to NPA to improve the quality of there assets portfolio. hence, success of the bank depends on methods of managing NPA. the finding of the study show that there is no impact of npa on Axis bank profitability. but if we see operating margin ratio we can understood in this ratio there is a impact of NPA. Finally bank should take care otherwise NPA will completely effect the AXIS bank profitability.

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