

A COMPREHENSIVE ANALYSIS ON INFLUENCE OF NON-PERFORMING ASSETS ON THE PROFITABILITY OF BANKS IN INDIAN SCENARIO

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Abstract: Non-performing Asset is an essential factor in the assessment of budgetary execution of a bank. Non Performing Asset is the key term for the banking partnerships. Non Performing Assets show the capability of the presentation of the banks. Non Performing Assets implies which sum isn't gotten by the bank consequently of credits dispensed. Non Performing Assets influence the money foundation as well as the complete budgetary framework. In this manner a specific report has been done on open part 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 additionally based on standard of assets. NPAs adversely influence on the profitability, liquidity and dissolvability of the banks. This paper examinations the conditions of NPAs in those 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 additionally features the approaches pursued by the banks to handle the NPAs and recommends a multi-pronged methodology for expedient recuperation of NPAs in banking area. Seven Public Sector Banks has been chosen for the examination 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. In any case, 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 pending advances. The investigation depends on auxiliary information recouped from Report of Progress of banking in India, Websites, Journals and Articles. The extent of the examination is restricted to investigation of nonperforming assets of open division banks covering the time of 2007-2016.

Keywords: Non-Performing Asset; Net Profit; Doubtful Debts; Correlation; Deposit.

1. Introduction

With the presentation of budgetary part changes 1991 the essences of Indian Banking division have very changed. The issues emerging in the banking area will influence the Indian economy. At the point when the economy crumbled likewise influenced the banking part. Capacity as a delegate bank isn't running ordinarily. The banking division likewise has a significant job in the recuperation procedure of the nation's economy overall. The banking business has moved bit by bit from a synchronized domain to a decontrolled showcase based economy. In 1991-1992 India was embraced the open economy. The start of progression and globalization in advertise advancement there has been enormous changed in the transitional job of banks in India. The issue of expanding non-performing asset is getting consideration and expansion of enormous NPA has expected extraordinary significance as far as hazard the board. The occurrence of non-performing assets (NPAs) is influencing the exhibition of the credit foundations monetarily. NPA is a confusion coming about in non-execution of a part of credit portfolio prompting no recuperation or less recuperation salary to the loan specialist. NPAs speak to the evaluate "Credit Risk". Bankers have acknowledged to have successful NPA the board on their need list.

1.1 Types of NPA

NPA extensively characterized as non-reimbursement of intrigue and portion of chief sum (Das and Ghosh, 2006). As indicated by the "Narasimham Committee Report (1991), those assets (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 diminished and from March 1995 onwards assets for which intrigue and rule stays unpaid for a time of 90 days were considered as NPAs. Accordingly, NPA establishes a significant factor in the banking framework as it truly influences the profitability of the banks. The NPA can comprehensively be ordered into Gross NPA and Net NPA. Net NPA mirrors the nature of the advances made by banks though Net NPA shows the real weight of banks.

1.1.1 Gross NPA

Net NPA 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 asset) alludes to by and large amount of advances that have turned sour obligations. It comprises of all the nonstandard assets like as unsatisfactory, dubious, and misfortune asset. "Net NPAs Ratio = Gross NPAs/Gross Advances"

1.1.2 Net NPA

Net NPAs are those sort of NPAs where the bank has deducted the arrangement with respect to NPAs. "Net NPAs = Gross NPAs – Provisions/Gross Advances – Provisions"

1.2 Assets Classification

1.2.1 Standard Assets

Standard Asset implies which assets are not confronting the issue and not more hazard towards client. Such assets are thought to perform asset. A general arrangement of 0.25% must be given on worldwide credit portfolio premise.

1.2.2 Sub-standard Assets

An asset would be delegated unacceptable in the event that it remained NPA for a period not exactly or equivalent to a year. In like manner a general arrangement of 10% on outstanding must be given on substandard assets.

1.2.3 Doubtful Assets

These are the assets 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 unbound measure of the outstanding credit.

1.3 Causes of NPA

1.3.1 Lending Practices of Banks: In 2008 the money related emergency has been happened as a result of awful loaning acts of banks. The banks ought to carefully keep rules and guidelines while loaning credits. They ought to appropriately pursue the credit strategy of banks.

1.3.2 Business Risk: The association may in some cases face issues with its very own operational condition which may bring about misfortunes for the organization.

1.3.3 Environmental Risk: Sometimes there might be natural issues like violent winds, dry spell which doesn't give the necessary yield to the ranchers and Agri based organizations.

1.4 Impact of NPA

1.4.1 Liquidity

The Banks are confronting the issue of NPAs. They are not recouping which loaning cash to borrower. Those occasions cash will be blocked. Banks need more money in hand for brief timeframe.

1.4.2 Credit loss

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

1.4.3 Profitability

NPA not only affect on current profits but also profit of entire financial year.

2. Literature review

As indicated by Reserve Bank of India (RBI) clarifies the meaning of NPAs, "an asset makes non-performing when it stops to create pay for the bank. As of late an asset was estimated as non-performing asset (NPA) stand on the idea of 'Past Due'. A non performing asset was inspected as credit in regard of which enthusiasm of chief has stayed 'past due' for a specific time". Siraj and Sudarsanan Pillai says that "NPA is an infection influencing banking part. The examination reasoned that NPA still stays a significant danger and the gradual segment disclosed through increases to NPA offers an extraordinary conversation starter mark on effectiveness of credit hazard the executives of banks in India". Debarsh and sukanya goyal (2012) underscored "on the executives of non-performing assets in the point of view of the open segment banks in India under exacting asset characterization standards, utilization of most recent innovative stage dependent on center banking arrangement, recuperation systems and other bank explicit markers with regards to stringent administrative structure of the RBI". In the original examination 'using a loan approach, frameworks, and culture', Reddy (2004) raised different basic issues relating to credit conveyance system of the Indian banking segment. Reddy (2004) fundamentally inspected "different issues relating to terms of credit of Indian banks. In this specific situation, it was seen that 'the component of intensity doesn't matter to the criminal behavior. A default isn't altogether a nonsensical 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 inward and outer elements confronting the borrowers (Muniappan, 2002). "The inward factors are redirection of assets for enhancement taking up new tasks, helping/advancing partner concerns, time/cost overwhelms during the undertaking usage arrange, business (item, promoting, and so forth.) disappointment, wasteful administration, stressed work relations, improper innovation/specialized issues, item oldness, and so on., while outer components are downturn, non-installment in different nations, inputs/control deficiency, value acceleration, mishaps and common disasters".

3. Research Methodology

Point of the present research paper is to examine the patterns in NPAs as far as qualities, net NPAs and net profit. A few research contemplates on NPA in Indian banking division are accessible, the examinations on a more intensive look approved NPA issue utilizing optional information. The essential accentuation of this examination is centered around breaking down nonperforming assets of open part banks in India during the period 2007 to 2016. The present investigation is an enlightening report which attempts to set up the connection between the non performing assets and net profits. This is specific investigation. The information for the examination has been sourced from Reserve Bank of India (RBI) announcements, measurable tables identifying with banks in India, report on existing and progress of banking in India, gave by the RBI. The investigation likewise proposes multi-pronged and expanded methodology for expedient recuperation of NPAs in business banks in India. The last examination is finished by Correlation and Regression utilizing MS Excel. The paper comprises of optional information which has been gathered from various productions, for example, the Reserve Bank of India distributions, the reports distributed by business banks, different issues of the IBA diary and so forth.

4. Table and Figures

4.1. Figure

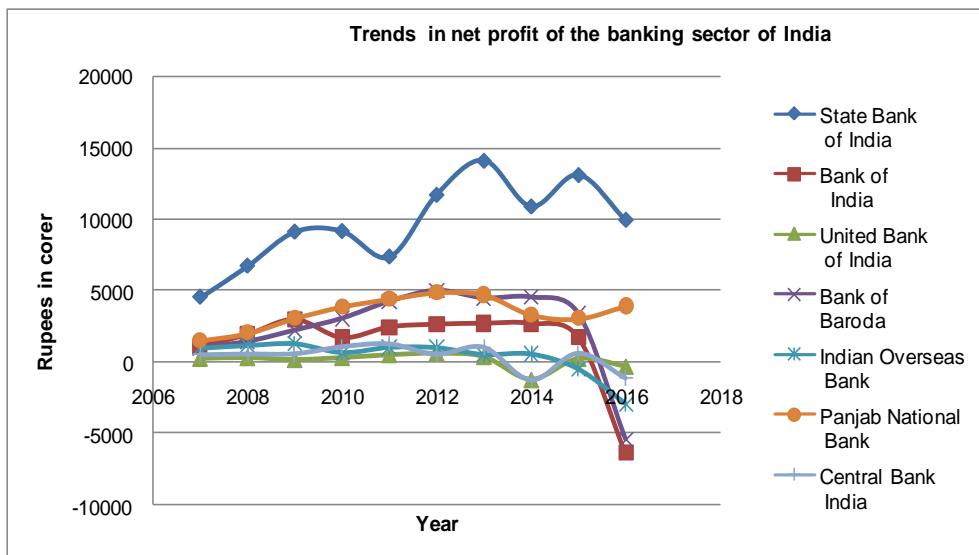


Figure 1: Net profit of Seven Banks for Ten year
Source: Prepared by Author

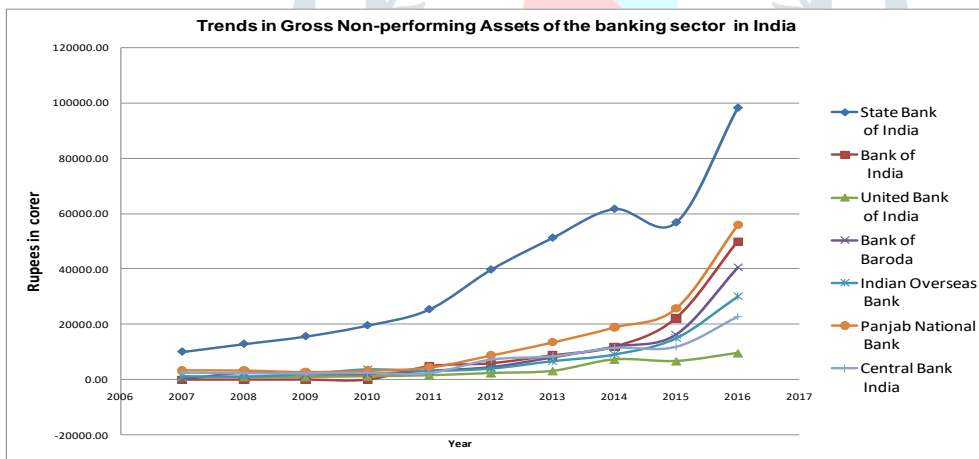


Figure 2: Non-performing assets of seven banks
Source: Prepared by Author

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.

Table 1:Net Profit (Rupees in corer)

Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Panjab National Bank	Central Bank India
2007	4541.31	1125.95	267.28	1026.46	1008.43	1540.08	498.01
2008	6729.12	1960.28	318.95	1435.52	1202.34	2048.76	550.16
2009	9121.23	3009.41	184.71	2227.20	1325.79	3090.88	571.24
2010	9166.05	1738.56	322.96	3058.33	706.96	3905.36	1058.23
2011	7370.35	2488.71	523.97	4241.68	1072.54	4433.50	1252.41
2012	11707.29	2674.62	632.53	5006.96	1050.13	4884.20	533.04
2013	14104.98	2741.91	391.90	4480.72	567.23	4747.67	1014.96
2014	10891.17	2732.65	-1213.44	4541.08	601.74	3342.58	-1262.84
2015	13101.57	1748.32	255.99	3398.44	-454.33	3061.58	606.45
2016	9950.65	-6334.98	-281.96	-5395.54	-2897.33	3944.40	-1117.67

Source: Financial results of different seven banks of ten years

A wonderful contrast in the monetary status of the banks was seen in the year 2016. Every one of the banks aside from SBI and PNB experienced an extreme misfortune in the year. The misfortune percents of the banks-BOI, BOB, IOB, CBI and UBI in the year 2016 when contrasted with 2015 were 462.32, 258.77, 537.71, 284.30, and 210.14 separately. Among the banks, just SBI and PNB could accomplish profit reliably in every one of the years.

Table 2:Gross NPA (Rupees in corer)

Year	State Bank of India	Bank of India	United Bank of India	Bank of Baroda	Indian Overseas Bank	Panjab National Bank	Central Bank India
2007	9998.00	0.00	744.30	0.00	1120.00	3390.72	2572.00
2008	12837.34	0.00	817.00	2400.69	997.00	3319.30	2350.00
2009	15588.6	0.00	761.00	1842.92	1923.40	2767.46	2316.50
2010	19534.89	0.00	1019.60	1981.38	3611.00	3214.41	2457.90
2011	25326.29	4811.55	1355.78	3152.50	3089.00	4379.39	2394.53
2012	39676.46	5893.97	2176.42	4464.75	3920.00	8719.62	7273.46
2013	51189.39	8765.25	2963.83	7982.58	6607.00	13465.79	8456.18
2014	61605.35	11868.80	7118.01	11875.90	9020.00	18880.06	11500.01
2015	56725.34	22193.24	6552.91	16261.45	14922.00	25694.86	11873.06
2016	98172.80	49879.12	9471.01	40521.04	30048.00	55818.33	22720.88

Source: Financial results of different seven banks of ten years

NPA of the banks continued expanding in every one of the years yet an extraordinary raise was seen in the year 2016. The rate raise of NPA of the banks in the year 2016 when contrasted with 2015 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

Source: Prepared by author

In Table no 3 is demonstrating that relationship for SBI and PNB are equivalent to 0.591 and 0.194 separately. It implies that there is a positive connection between Net Profits and NPA. It implies that as profits increment NPA likewise increment. NPA is straightforwardly identified with Total Advances given by bank and banks fundamental wellspring of pay is premium earned by bank. Yet, different banks are negative relationship. NPAs are expanding in consistently however net profit decline.

5. Result

The banks have communicated connection between's Gross NPA and the Net profit. SBI and Punjab National Bank have demonstrated positive connection, and the various banks communicated negative relationship. Bank of Baroda expanding the NPA practically 249% as contrast and 2015. In this exploration paper applying the random strategy for board relapse, the outcome is:

plm(formula = G.NPA ~ Net.Profit, information = npa_rp, model = "random",
R-Squared: 0.57082

R esteem is 57% that is the reason this model is powerful model. This model indicated that when the NPA is expanding that time net profit diminishing. The autonomous factors is non-performing asset. Ordinarily the profitability of the banking part relies upon recuperation of advances on time which are dispensed to the various segments. The presentation of banking area relies upon how viably you deal with the non performing assets. Aside from SBI and Punjab National Bank every one of the banks are confronting issues as for NPAs. It doesn't show that the more NPAs the more profits for SBI however the biggest bank of India can get more profits simply because of its wide assortment of budgetary administrations and compelling administration of NPAs. Yet, on the off chance that NPAs proceed in a similar way, at that point even huge banks will likewise falter like Lehman Brothers in USA which brought about International financial emergency.

6. Conclusions

NPAs influence the money related execution of Indian banks too budgetary development of economy. Indian banking framework is confronting the NPAs issue. Each nation's monetary development relies on their budgetary framework. The money related framework principally includes banking segment. Particularly open segment banks should concentrate on their NPA Management to develop their profitability. The budgetary foundations ought to grow new systems wanting to improve the recuperation of advance. Non-performing assets (NPAs) is influencing the exhibition of monetary organizations both monetarily and mentally. The non-performing assets have become a significant reason for concern. Retaining the credit the board aptitudes has become even more significant for improving the reality of the banking part. The present NPAs status keeps on upsetting Indian banking Sector. A few analyses have been attempted to reduce NPAs however nothing has hit the imprint in handling NPAs. The Indian banking part confronted a major issue of NPAs. An elevated level of NPAs proposes high likelihood of countless credit defaults that affect the profitability and liquidity of banks. The greater part of the issue identified with NPA is looked by open area banks. To improve the productivity and profitability, the NPAs must be planned. 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 advance. Banks ought to build up another recuperation programs for over contribution, checking accounts, keeping normal contact with borrowers. Be that as it may, numerous borrowers are defaulters not on account of low pay however because of absence of morals. Improving the credit Management-Management of credit is basic for appropriate working of banks. Readiness of credit arranging, appropriate credit evaluations, payment, post endorse development and need based credit are the a few zones of credit the executives that necessities improvement so as to diminish the NPAs. Banks ought to lessen reliance on premium pay Indian banks are to a great extent subject to the loaning and venture as in contrast with created nations. Indian banks should search for sources (pay) from charge based administrations and items. Credit Information Bureau India LTD (CIBIL) the organization of data sharing course of action is currently 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 outside innovation accomplices. This will forestall the individuals who exploit absence of arrangement of data sharing among driving foundations to obtain huge sum against same assets and property, which has in no measures added to the steady of NPAs of banks.

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