

To Study the Impact of NPA on Net Profit and Return on Assets (ROA) of the Selected Banks

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ABSTRACT

Nonperforming assets (NPAs) in India's banking sector are now at levels seen in other developed countries and far lower than in a number of nations across the globe. Recent years have seen the Indian banking system achieve a number of notable accomplishments, one of which is the decrease of nonperforming assets (NPAs) by RBI rates. However, the ever-increasing volume of nonperforming assets continues to be a major concern for the banking industry in India. If we look at the amount of nonperforming assets (NPAs) for the year 2009–10, which is 59926 crores in public sector banks, 17639 crores in private sector banks, 84747 crores in scheduled commercial banks, and 7180 crores in foreign banks, we can see the magnitude of the issue. The high level of nonperforming assets has had a devastating effect on the earning capability and profitability of several financial institutions and banks. In the current economic climate in India, it is becoming more difficult to control the rising nonperforming assets. These factors have an impact on equity, profitability, and liquidity. The purpose of this study is to analyse the current state of banks' Non-Performing Assets, identify the root reasons of the issue, and provide solutions.

Keyword: *Nonperforming assets, profitability, magnitude, capability*

INTRODUCTION

It has been said that "the development of banking is not only the root but also the result of the development of the business world." This assertion is accurate since financial institutions provide a fast-growing and healthy field of development. Any economy's growth depends on the development of a strong banking sector, but developing nations like India are particularly vulnerable. The Indian banking industry started to change into a developing character following the implementation of the government policy in 1991. People have found it quite helpful in handling their money in the way that best fits their needs. The number of people starting to invest their money is growing, and as a result, they are getting higher returns on their investments. An increasing number of people have admitted that they know banks provide them with good security for their funds, and as a result, more money is invested in banks. With the help of banks, people have therefore been able to achieve their socioeconomic objectives. In addition to accepting deposits from the public, banks also provide a range of lending options to help people's economic development.

When it comes to financial concerns, the banking sector is quite important. When it comes to giving loans to people who are in need, it is a crucial step. By raising the amount of interest they earn or the amount of principal they collect in loan installments, banks are able to increase their cash flow while offering loans to their clients. Banks' revenue and profitability depend on them being able to access these funds. When the lent money is recouped within a given time frame, either with interest or the principal amount, it is advantageous to the bank in question. However, the linked bank will not profit and the transaction would be categorized as non-performing (NPA) if they are unable to do so within the 180-day period. To put it another way, non-performing assets, or NPAs, are loans from both public and private sector banks that have a direct impact on the flow of funds since the borrower has not paid back the principle and interest within the allotted 180 days. When loans are not fully repaid, along with the interest that goes along with them, the credit cycle is severely disrupted. An increased probability of defaulting on obligations is indicated by the growing number of nonperforming assets (NPAs), which disturbs the banks' profit and net worth and, taken together, reduces the value of quality. Therefore, we must focus on the financial sector as a whole, which is the system's driving force, if we wish to understand and exhibit a thorough understanding of non-performing assets.

In the world of banking and finance, the phrase "non-performing assets" (NPA) is used. Any sum that a bank or financing firm does not recoup from a borrower within 90 days is considered non-performing assets. Since the beginning of economic liberalisation in 1991, there has been a dramatic shift in the banking sector, and with it, credit management. Up until 1991, the Indian banking industry was more concerned with achieving performance goals including expanding their branch networks, increasing employment, lending to priority sectors, developing rural regions, etc., than with ensuring the quality of their assets. Although banks' main role is to lend money to many industries (agricultural, industrial, personal, housing, etc.), they have recently been very careful when lending money. This is because nonperforming assets (NPAs) have been steadily rising and are now a big issue for Indian banks.

Commercial banks (including those in the public and private sectors as well as international banks), RRBs, cooperative banks, payment banks, and so on make up India's banking system. After 14 banks were nationalised in 1969 and 6 in 1980, the Indian economy jumped into the top 10 globally.

The last resort of every financially troubled institution are its non-performing assets, also known as bad loans or NPAs. A bad loan occurs when the borrowers fail to pay back the loan in whole or in part, or in any combination of the two. According to RBI, nonperforming loans are defined as loans with interest or principal that is more than 90 days past due from the end of a certain quarter.

Statement Of The Problem

Government-owned banks held a near-monopoly on the financial market for a long period. However, such banks no longer have the monopoly power, preferential treatment, and other benefits they once had. The government's choice to change its economic policies has put public sector banks in a competitive market. With the emergence of next-generation private sector banks, a new era in banking has begun. Not just in Indian public sector banks, but throughout the whole banking system, non-performing assets (NPAs) are a widespread problem. The current bad loan situation in Indian banks is mostly the result of lending to the priority sector on the directives of bureaucrats and politicians. If banks had just kept a closer eye on their loans, the bad debt issue may have been lessened, if not completely resolved. Bank CEOs were forced by politicians and bureaucrats to provide more loans to dishonest borrowers in order to save them. Many significant borrowers defaulted due to the economic slump alone. The lack of efficient bankruptcy laws and the drawn-out judicial process for enforcing security claims are the primary causes of banks' bad debts. The large percentage of nonperforming loans in public sector banks is caused by a number of additional reasons in addition to these. The NPA crisis in India's banking sector is overstated when nonperforming loans are calculated as a percentage of risk assets rather than total earning assets. In order to boost recovery and lower non-performing assets (NPAs), banks are expected to carry out a continuous recovery exercise utilizing a range of techniques and introducing innovative approaches.

The bank must adjust to the new situation if it is to survive and continue to contribute significantly to the expansion of the economy. This calls for a thorough examination of the bank's financial performance, both recently and historically, in order to assess its present state and forecast its potential. This research will help the bank identify its areas of strength and progress. The significance of the appraisal increases as the Reserve Bank of India (RBI) consistently enforces more stringent guidelines for non-performing assets. This study considers the significance of assessing the non-performing assets and overall performance of India's public and private banks.

REVIEW OF LITERATURE

O.P. Gupta et.al (2024) The health of a nation's finances is a reflection of the banking sector, so its performance is vital to the economy. Mobilising money from a variety of sources, including priority and non-priority industries, to support a wide range of economic activities is an important function of banks. The banking sector has been struggling for a long time because of bad loans. Non-Performing Assets (NPAs) are a major roadblock to economic growth and development. The effect of nonperforming assets on the profitability of a subset of India's public and private banks from 2018–19 to 2022–23 is the subject of this research. For a better understanding of how nonperforming assets (NPAs) affect a bank's bottom line, it's helpful to look at important ratios such as gross NPA, net NPA, and return on assets (ROA). Public sector banks have greater nonperforming asset levels, which impacts their profitability, according to the data. Effective nonperforming asset (NPA) management is critical for improving bank profitability because of the strong relationship between NPAs and profitability. In order to strengthen the banking system and reduce nonperforming loans, these insights are vital for regulators, lawmakers, and bank management.

Sankalp Parsendiya et.al (2023) Liberalisation, privatisation, and globalisation brought about significant changes to the way banks in India operated. Indian economic reforms began in the early 1990s, but we are only now seeing their fruits. The level of nonperforming assets is indicative of how well banks are doing.

Banks' profitability, net worth, and asset value are all impacted by the likelihood of a significant number of credit defaults, which is indicated by a high level of non-performing assets. Nonperforming assets (NPAs) pose a danger to the value of assets, the viability of banks, and their liquidity and profitability. Getting the nonperforming assets in order will increase productivity and revenue. The nonperforming assets have been reduced via a variety of measures implemented by the authority.

A definition of "non-performing assets" is sought for in this article. The purpose of this research was to examine the effectiveness of public and private sector banks in India in handling nonperforming assets (NPAs) and to assess the operational performance of the chosen institutions.

Objectives Of Study

1. To study the relationship between NPA with the key parameters of selected banks.
2. To find out the impact of NPA on Net profit and Return on Assets (ROA) of the selected Banks.

RESEARCH METHODOLOGY

The research approach tells the reader about the precise analysis techniques employed and establishes the parameters of the planned investigation. This contains the motivations behind the study's execution. This also clarifies the timeframe, scope, data sources, and other aspects of the proposed study. The tools and procedures used in the study are also quite important.

To put it briefly, this section helps the researcher decide how to proceed with his investigation.

A number of companies' annual reports have provided secondary information. Relevant data about banks' assets, liabilities, incomes, and expenses was taken from the companies' annual reports in order to do an analysis of their efficiency. The website, books that are accessible on Google Books, and the school of business library have all provided more useful information. Five public and five private banks were chosen for this investigation using the random sample technique.

There are twelve state and twenty-one private banks in India. Five public and five private sector banks were selected as samples from the two sectors using a random selection technique.

RESULTS AND DATA ANALYSIS

Table 1: Gross NPA (RS.) Of Private Banks

PRIVATE BANKS					
GROSS NPA- (Rs.)					
YEAR	Axis Bank Ltd	HDFC Bank Ltd	ICICI Bank Ltd	IndusInd Bank Ltd	Kotak Mahindra Bank Ltd
2021-22	21822.32	16140.96	33294.92	5517.15	6469.74
2020-21	25314.84	15086.00	40841.42	5794.99	7425.51
2019-20	30233.82	12649.97	40829.09	5146.74	5026.89
2018-19	29789.00	11224.16	45676.04	3947.41	4467.94
2017-18	34248.64	8606.97	53240.18	1704.91	3825.38
2016-17	21280.48	5885.66	42159.39	1054.87	3578.61
2015-16	6087.51	4392.83	26221.25	776.82	2838.11
2014-15	4110.19	3438.38	15094.69	562.92	1237.23
2013-14	3146.41	2989.28	10505.84	620.79	1059.44
2012-13	2393.42	2334.64	9607.75	457.78	758.11

Table 2: Gross NPA (Rs.) Of Public Banks

PUBLIC BANKS					
GROSS NPA-(Rs.)					
YEAR	Bank of Baroda	Canara Bank	Punjab National Bank	State Bank of India	Union Bank of India
2021-22	64059.39	55652.00	92448.04	112023.00	79587.07
2020-21	66671.00	60288.00	104423.42	126389.00	89788.20
2019-20	69381.43	37041.15	73478.76	149091.85	49085.30
2018-19	48232.76	39224.12	78472.70	172753.60	48729.00
2017-18	56480.00	47468.47	86620.05	223427.46	33712.00
2016-17	42719.00	34202.04	55370.45	112342.99	33712.28
2015-16	40521.04	31637.83	55818.33	98172.80	24170.89
2014-15	16261.44	13039.96	25694.86	56725.34	13030.87
2013-14	11875.90	7570.21	18880.06	61605.35	2563.74
2012-13	7982.58	6260.16	13465.79	51189.39	6313.83

Table 3: Gross NPA / Total Capital Of Private Banks (%)

PRIVATE BANKS					
GROSS NPA / TOTAL CAPITAL (%)					
YEAR	Axis Bank Ltd	HDFC Bank Ltd	ICICI Bank Ltd	IndusInd Bank Ltd	Kotak Mahindra Bank Ltd
2021-22	18.95	6.72	19.53	11.57	8.93
2020-21	24.92	7.41	27.69	13.36	11.65
2019-20	35.59	7.40	35.05	14.83	10.26
2018-19	44.68	7.52	42.15	14.79	10.41
2017-18	53.98	8.10	50.63	7.15	10.21
2016-17	38.16	6.58	42.18	5.11	12.96
2015-16	11.45	6.04	29.22	4.39	11.84
2014-15	9.20	5.54	18.77	5.29	8.75
2013-14	8.23	6.88	14.35	6.86	8.62
2012-13	7.23	6.45	14.40	6.00	8.01

Table 4: Gross NPA / Total Capital Of Public Banks(%)

PUBLIC BANKS					
GROSS NPA / TOTAL CAPITAL (%)					
YEAR	Bank of Baroda	Canara Bank	Punjab National Bank	State Bank of India	Union Bank of India

2021-22	74.57	84.18	96.82	40.00	112.77
2020-21	86.53	102.38	114.83	49.78	139.26
2019-20	96.56	94.27	117.83	64.26	145.28
2018-19	104.99	108.42	175.21	78.20	183.97
2017-18	130.15	133.32	210.89	101.96	134.33
2016-17	105.99	101.53	132.32	59.67	143.85
2015-16	100.80	100.11	145.70	68.05	105.59
2014-15	40.82	40.93	65.75	44.17	65.94
2013-14	33.00	25.56	52.60	52.08	13.88
2012-13	24.97	25.16	41.21	51.77	36.50

CONCLUSION

The banking sector has become one of the main drivers of the Indian economy's growth in recent years. A strong banking system is necessary for a functioning economy because banks are regarded as the most significant segment of the financial sector. India's financial system has achieved many noteworthy feats over the past thirty years. Among its most valued advantages are its broad appeal to the general public and its extensive range of services for individuals from all walks of life. It now benefits the entire nation, not just the urban elite, and is bringing together various segments of Indian society to promote the growth of the nation.

Any financial system will inevitably have non-performing assets (NPAs), and in order to keep any account from turning into an NPA, it is imperative that it be continuously monitored. A review of the literature and other research have shown that keeping non-performing assets (NPAs) within a reasonable range and managing them effectively are essential to the bank's success. Since 1991, the majority of discussions about the changes made to the Indian banking industry have focused on the significant steps taken to make the country's banking system more vibrant, sound, stable, and effective. The reform process required the implementation of prudential standards for income recognition, asset classification and provisioning, and capital adequacy standards in line with global best practices in order to enhance the caliber, efficiency, and performance of banks in a highly regulated environment.

Effective non-performing asset (NPA) management is now required in the highly competitive global market of today. In the banking sector, managing non-performing assets (NPAs) requires collaboration from employees at all levels, down to branch managers. Over the past three decades, especially after liberalization, the RBI has worked with banks to implement a number of regulatory measures, such as the SARFAESI Act, to manage non-performing assets (NPAs) and bring them down to their ideal level.

Despite the importance of these procedures, the rise in new non-performing assets (NPAs) during the financial crisis highlights the need for an efficient approach to credit risk management. Non-performing assets (NPAs) are causing banks to lose capital. In addition, it is a financial and political issue. Banks and other financial institutions should prioritize preventing non-performing assets in order to manage non-performing assets more effectively. Compared to private sector banks, public sector banks have a greater non-performing asset (NPA) ratio. Better and faster preventive measures must be taken by public sector banks to keep any accounts from becoming non-performing assets.

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