

A COMPARATIVE STUDY ON IMPACT OF NON-PERFORMING ASSETS ON PROFITABILITY OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

Dr. B Vijaya¹

Professor, Department of Commerce,
Gulbarga University, Kalaburagi
-585106, Karnataka (India)
Email: drbvijaya@yahoo.com
Mob: 9448577120,

Mr. Sanjaya Pawar²

Research Scholar and Assistant Professor
S.S.R.G Women's College Raichur- 584103,
Karnataka (India)
Email: sanjayapawar5555@gmail.com
Mob: 8722435555,

Abstract:

The Indian banking sector is the backbone of the country. It reflects the economic condition of the country. The present study efforts to compare the profitability of selected public and private sector banks in India. It determines the impact of the bank's internal factors on profitability (i.e., net profit). The study identifies the main internal factors affecting the profitability. There is a negative impact of net NPAs on profitability of public sector banks. The study indicates that there is a significant impact of net NPAs on profitability of public sector banks. On the other hand, there is a positive impact of net NPAs on profitability of private sector banks and the insignificant impact on private sector banks. The Mean and standard deviation has been used to show the stability in the performance of banks. The correlation analysis has been used to find the relationship between NPAs and profitability (i.e., Net profits) of the selected banks.

Key words: Net NPAs, Net Profits, Profitability, Correlation and Banking.

1. Introduction:

The banking sector of a country plays vital role in the growth of Indian economy. But present era the banking sector profitability performance has shown falling trend due to increasing trend of non-performing assets (NPAs) of the banks. The assets are classified into two categories which are performing assets and non-performing assets. Performing assets are those assets which generate interest income regularly and customers of the banks paid their installment amount in respect of principal and interest within the due date. Non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. Banks are further classified NPAs into Substandard, Doubtful and Loss assets.

1. Substandard assets: Assets which has remained NPA for a period of less than or equal to 12 months.
2. Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
3. Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value. At present public sector banks are facing more problems than private sector banks for the management of NPAs. A mounting level of NPAs in the banking sector can severely affect banks' profitability and performance. If NPAs are not effectively managed, it can cause financial and economic degradation which, in turn, give adverse signals on investment climate. Therefore, it is highly relevant to assess the profitability and performance of the selected banks.

2. Review of literature

Kiran Chopra (1987) have analysed the emerging trends in profits and profitability of some selected public sector banks. The researcher says that there is a need to introduce management necessities for the better managements of profits and output of public sector banks. The study has also suggested for appropriate management of both costs and earnings.

Alper and Anbar (2011) have examined the bank detailed and macro-economic determinants of the banks' profitability over the period 2002-2010. The banks' profitability was measured by return on assets (ROA) and return on equity (ROE) on 'Bank Specific and Macro-economic Determinants of Commercial Bank Profitability: Empirical evidence from Turkey'.

Adam (2014) has been investigated the 'Financial performance of Erbil Bank for Investment and Finance, Kurdistan Region of Iraq' for the period 2009-13. The researcher concluded that the overall financial performance of Erbil Bank is improving the liquidity ratio, assets quality or credit performance and profitability ratios (ROA, ROE and NIM).The study suggests and recommends the development and improvement of some bank operations which will enhance the bank's profitability and improve the financial performance.

Sharifi, O. and Akter, J. (2016) have examined the trends, status and impact of NPAs on profitability of Public Sector Banks during the period of 2009-2015 and The researcher found that the NPAs are negatively Impact on financial performance of Public Sector Banks.

Ripon Bepari and Subhas Chandra Sarkar (2020) this study compared the impact of non-performing assets of selected public and private sector bank. The data was analysed by using mean, SD, CV and Correlation. The researcher found

there is a no significant impact of NPAs on Net profits of selected private Sector banks in India during the study periods.

3. Objectives of the Study:

The main objectives of study are as follows:

- To compare the relationship between Net NPAs and Net Profits of the selected public and private sector banks in India.
- To analyse the impact of Net NPAs on the Net Profits of selected public and private sector banks in India.

4. Research Methodology

4.1. Sample designed: The present study is focused on compare the impact of non-performing assets on profitability of selected public and private sector banks in India. The four banks were selected for the study, two banks from public sector. i.e., State Bank of India and Canara Bank and two banks from private sector i.e., ICICI Bank and HDFC bank.

4.2. Data Collection: The present study is based on secondary data which have been collected from the Annual Reports of selected banks, RBI reports, articles etc.

4.3. Study period: The present study has been covered a period of 10 financial years from 2012-13 to 2021-22.

4.4. Tools used: The data has been analysed with the help of using ratios, mean, Standard Deviation (SD), coefficient of variation (CV) and correlation with the help of MS Excel.

5. Data Analysis and Interpretation:

The Mean and standard deviation has been used to show the stability in the performance of banks. The correlation analysis has been used to find the relationship between NPAs and profitability (i.e, Net profits) of the selected banks.

Table 1: shows the Net NPAs and Net Profits of the Selected Public Sector Banks in India (Amount in CR).

Years	State Bank of India		Canara Bank	
	Net NPAs	Net Profit	Net NPAs	Net Profit
2012-13	21,956	14,105	5,278	2,872
2013-14	31,096	10,891	5,965	2,438
2014-15	27,591	13,102	8,740	2,703
2015-16	55,807	9,951	20,833	-2,813
2016-17	58,277	10,484	21,649	1,122
2017-18	1,10,855	-6547	28,542	-4,222
2018-19	6,58,947	862	22,955	347
2019-20	51,871	14,488	18,251	-2,236
2020-21	36,810	20,410	24,442	2,558
2021-22	27,966	31,676	18,668	5,678
Mean	1,08,118	11,942	17,532	854
SD	195265	10249	17227	3078
CV (%)	180.60	85.82	98.26	360.42
Correlations	-0.472		-0.508	

Source: Annual Reports

Table 1 shows the State Bank of India NPAs highest was in the year of 2018-19 (6,58,947) and lowest was in the year of 2012-13 (21,956) and mean is 1,08,118 and Net Profit highest was in the year of 2021-22 (31,676) and lowest was in the year of 2017-18 (-6547) and the mean is 11,942.

The Canara Bank NPAs highest was in the year of 2017-18 (28,542) and lowest was in the year of 2012-13 (5,278) and the mean is 17,532 and Net Profit highest was in the year of 2021-22 (5,678) and lowest was in the year of 2017-18 (-4,222) and the mean is 854.

The correlation between net NPA and net profit of State Bank of India (-0.472) and Canara Bank (-0.508) depict that net profit and net NPAs negatively correlated of both banks. This shows that when net NPAs are an increasing level but there will be a downfall in the net profits of the selected banks.

Table 2: Net NPAs and Net Profits of the Selected Private Sector Bank in India (Amount in CR).

Years	ICICI Bank		HDFC Bank	
	Net NPAs	Net Profit	Net NPAs	Net Profit
2012-13	2,231	8,325	469	6,726
2013-14	3,298	9,810	820	8,478
2014-15	6,256	11,175	896	10,216

2015-16	12,963	9,726	1,320	12,296
2016-17	25,217	9,801	1,844	14,550
2017-18	27,824	6,777	2,601	17,487
2018-19	13,450	3,363	3,215	21,078
2019-20	9,923	7,931	3,542	26,257
2020-21	9,118	16,193	4,555	31,117
2021-22	6,931	23,339	4,408	36,961
Mean	11,721	10,644	5,367	18,517
SD	8627	5530	1514	10163
CV (%)	73.60	51.95	28.21	54.88
Correlations	-0.307		0.974	

Source: Annual Reports.

Table 2 shows that the ICICI Bank NPAs highest was in the year of 2017-18 (27,824) and lowest was in the year of 2012-13 (2,231) and the mean is 11,721 and Net Profit highest was in the year of 2021-22 (23,339) and lowest was in the year of 2018-19 (3,363) and the mean is 10,644.

The HDFC Bank NPAs highest was in the year of 2020-21 (4,555) and lowest was in the year of 2012-13 (469) and the mean is 5,367 and Net Profit highest was in the year of 2021-22 (36,961) and lowest was in the year of 2012-13 (6,726) and the mean is 18,517.

The correlation between net NPA and net profit of ICICI Bank (-0.307) and HDFC Bank (0.974) but the correlation for ICICI Bank negatively correlated, whereas HDFC bank positively correlated between Net profits and net NPAs.

This shows that when net profit is an increasing level but there will be decreasing in net NPAs.

6. Finding:

- The State Bank of India Net NPAs increased from 2012-13 to 2017-18 afterwards down falling from 2017-18 to 2021-22 mean is 108118. And Net Profit decreased from 2012-13 to 2018-19 and increasing from 2018-19 to 2021-22 mean is 11942.
- The Canara Bank Net NPAs continuously increasing from 2012-13 to 2021-22 mean is 11721. And Net Profit is volatility from 2012-13 to 2021-22 mean is 854.
- ICICI Bank Net NPAs increased from 2012-13 to 2017-18 afterwards down falling from 2017-18 to 2021-22 mean is 11,721. And Net Profit is volatility from 2012-13 to 2021-22 mean is 10,644.
- The HDFC Bank Net NPAs increased from 2012-13 to 2021-22 mean is 5,367. And Net Profit also increased from 2012-13 to 2021-22 mean is 18,517.
- The correlation analysis of Net Profit and Net NPAs reveals that both the selected public sector banks are negatively correlated and in the selected private sector banks the HDFC bank is positively correlated and ICICI Bank is negatively correlated.

7. Conclusion:

The result shows that the profitability of the selected public sector banks can be improved by improving the quality of their asset portfolio. Thus, by controlling lenders, banks can control the NPAs so that profitability does not fall. It wants to improve the management of selected banks by implementing its vision to control the level of NPAs and improve the profitability of selected banks. Thus, it can be concluded that the impact of NPAs on Profitability is significant for selected public and selected private sector banks in India.

8. References:

1. Abel, S. Le Roux P (2016). Determinants of banking sector profitability in Zimbabwe. *International Journal of Economics and Financial Issues* 6 (3): 845-854.
2. Adam M (2014). Evaluating the financial performance of banks using financial ratios - a case study of Erbil Bank for Investment and Finance. *European Journal of Accounting Auditing and Finance Research* 2(6):162-177.
3. Alper, D. and A. Anbar (2011). Bank specific and Macroeconomic Determinants of Commercial bank profitability: Empirical evidence from Turkey. *Journal of Business and Economics Research*. Vol.2.No.2.p.p139-152
4. Badola, B.S. & Verma, R .(2006). Determinants of Profitability Banks in India- A Multi variate Analysis, *Delhi Business Review*,7(2),79-88.
5. Chopra, K. (1987). Managing Profits, Profitability, Productivity in Public Sector Banking. Jalandhar: ABS Publication. Companies.(ed.) in Book, *Economic Reforms in India from First to Second Generation and Beyond*,

- Deep and Deep Publication, N. Delhi and (2005). Problem of NPAs and Its Impact on Strategic Banking Variables. Finance India, Vol.19, No.3, September
6. Das, Abhiman (1999). Efficiency of Public Sector Banks; An Application of Data Envelopment Mode. Prajnan, Vol, 28, No.2, September. (1997). Technical, Allocative and Scale Efficiency of Public Sector Banks in India. Reserve Bank of India Occasional Paper, 18(2, 3)279-97
 7. Dutta, A (2014). Empirical Study on Non-Performing Assets Management of Indian Commercial Sector Banks. Retrieved from, Perspective, Vol 6, no. 2. Pp. 18-22
 8. Jansons, V. & Kozlovskis, K.(2012). Ekonomis kaprognozesana SPSS 20 vide' [Economic Forecasting in SPSS 20 Environment]. Riga: RTU Publishing House.
 9. Kaveri, V.S.(1995). Relationship Between Recovery and Profitability of Banks: A Study SBI Monthly Review, Vol.33.
 10. Bepari Ripon and Sarkar Subhas Chandra (2020). Impact of non-performing assets on profitability performance of selected public sector banks and private sector banks in India: a comparative study. International journal of multidisciplinary education research peer reviewed journal. Volume 9, Issue 4(4).
 11. www.sbi.co.in
 12. www.canarabank.com
 13. www.hdfcbank.com
 14. www.icicibank.com