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How NPA Affects The Profitability Of Indian Bank

Dr. Kush Singodiya[1], Dr. Shilpa Jain[2], Mr. Farhan Salim Mansoori[3]

ABSTRACT

Managing NPAs help the banks to maintain its liquidity and profitability and improper NPA management lead to banking failures. The risk factor associated with NPAs induce banks to incline towards other low risk investments, in no ways it is suitable for the development of an economy. If the loan borrowers fail to repay the money, it will affect the interest income of the banks. Thus, the profitability of the bank may get hit with the categories of doubtful and bad debts. Other disadvantages include reduced return on investments (ROIs) and increasing loan interest rates. Present study evaluates the impact of NPAs on the stability of some Indian banks. If a bank has a high NPA ratio, its efficiency is deemed lower than the low NPA. This has a detrimental effect on the bank 's reputation and equity.

Keywords: *Non- Performing Assets, Return on Asset, Net Non-Performing Assets, Net Profit*

INTRODUCTION

Economic stability in the economy depends greatly on the stability and adaptability of the banking system. A bank has performing as well as non-performing assets. Performing assets are capable in generating income whereas non-performing assets fails to generate income (Rathore, Malpani, and Sharma, 2016). Banks need to maint[1]ain quality assets to achieve stability and adverse impact can occur if the bank fails to maintain stability. To maintain economic stability in a country, central bank and other concerned authorities continuously monitor the performance of the banking system of the country (Hussein 2016). The banking industry is an important service sector that supports the economic development through directing funds from the surplus to the deficit units of the economy with suitable governmental policies. Financial intermediation in India is done by the banking system of the country. The existence of non-performing assets (NPA's) is a serious threat to the banking system of the country. A stable banking system is essential in every country to face the situation of economic crisis.

LITERATURE REVIEW

NPAs are loans which the borrowers are failed to repay within a specified period of time. NPA impacts the operational efficiency of the bank (Kaur and Singh, 2011). A significant level of NPAs show a number of credit defaults impacts profitability and total assets of banks and furthermore reduces its asset's value. Increased NPAs is a sign of the need of

[1] Department of Commerce & Management, Assistant Professor, Softvision College, Indore, India.
[2] Department of Commerce & Management, Assistant Professor, Softvision College, Indore, India.
[3] Department of Mathematics, Mathematics Teacher, American Private School of Kalba, Sharjah, UAE.

arrangements, which reduces the general benefits and value. The whole banking sector of the country faces the issues related with the Non-Performing Assets.

An elevated level of NPAs recommends high likelihood of an enormous number of credit defaults that influence the net worth and profitability of banks and furthermore reduces the asset value. NPAs influence the both liquidity and profitability, by causing danger on nature of benefit and endurance of banks. The issue of NPAs isn't just influencing the banks yet in addition the entire economy. Actually, elevated level of NPAs in Indian banks is only an impression of the condition of wellbeing of the business and exchange. It is important to trim down NPAs to improve the budgetary wellbeing in the financial framework (Singh, 2016). A non-performing asset (NPA) is commonly defined as a credit agreement with interest and/or installments. For two or more quarters, the principle remains "past due." The balance due for every payment agreement shall be processed as "past due" if it is not paid within 30 days of the due date. Combined net loss for 20 public sector banks in the fourth quarter ended at Rs 16,272,34 crore in March 2016, the condition deteriorated due to bad loans (Rathore, Malpani, and Sharma, 2016).

RESEARCH GAP

Reviewed literature concerns with the scenario of NPAs in either private sector banks or nationalized banks. Attempts to showcase the Growth of NPAs in Indian banking sector as a whole is limited. Related studies address the NPA issue in Indian context in a generalized point of view based on a very few banks.

SIGNIFICANCE OF RESEARCH

When compared to the international scenario, Indian banking system has a large amount of NPAs. This is due to a number of reasons like inadequate monitoring and follow-up measures, inadequate legal framework and corporate culture, changes in the environmental factors and so on. Current study is an attempt to know the impact of the NPAs on the profitability of selected Indian banks from both public and private sectors.

RESEARCH QUESTIONS

Does Indian banks well manage NPAs in order to reduce its impact on their Profitability?

HYPOTHESIS

Management of NPAs to reduce the impact on profitability: -
H0: There is the lack of efficient managerial measures among Banks listed in the Bank Nifty Index in India in managing their NPAs.

H1: Banks listed in the Bank Nifty Index in India shows managerial efficiency in managing the NPAs

RESEARCH METHODOLOGY

The study is a comparative analysis of the secondary data from 12 selected banks which are listed in the Indian bank nifty index. Data is gathered from multiple secondary sources like annual reports of the banks, Reserve Bank of India publications and published research papers. The study considers the time period of 2008-2018 for the evaluation NPAs in Indian banks and its impact on profitability.

Sample: For the current study, the researchers have taken banks listed in Bank Nifty Index in India. The Bank Nifty Index consists of twelve banks, which are Axis Bank, Bank of Baroda, Federal Bank, HDFC Bank, ICICI Bank, IDFC first Bank, IndusInd Bank, Kotak Mahindra Bank, Punjab National bank, RBL bank, State bank of India and Yes Bank. The prowess database of CIME (Centre for Monitoring Indian Economy) has been used to extract the data for the period 2008-2018.

Variables: Gross NPA, Net NPA, ROA and Net Profit

EMPIRICAL FINDINGS

Management of NPAs to reduce the impact on profitability

H0: There is the lack of efficient managerial measures among Banks listed in the Bank Nifty Index in India in managing their NPAs.

H1: Banks listed in the Bank Nifty Index in India shows managerial efficiency in managing the NPAs

Table: 1 Gross NPA (2008-2018)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Company Name	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**	**Gross NPA (%)**
Axis Bank Ltd.	42.4125554	40.69932392	40.8610674	29.82437819	27.73871231	36.81693258	44.90681939	44.90930034	74.95386683	230.1249716	367.749602
Bank of Baroda	47.83211006	31.95212374	35.01989596	36.02682416	55.00947091	129.1432461	153.4536277	190.8891973	511.426086	478.3811036	556.6839677
Federal Bank Ltd.	25.20541916	32.27494127	50.5116218	62.91821028	55.74994026	100.4580603	75.61974555	74.27619496	165.1929496	129.0214384	170.310609
H D F C Bank Ltd.	47.94314646	64.32462576	32.1135188	19.86042018	18.82951579	20.76422248	27.70996635	25.68920222	28.65448365	33.72360472	40.90658393
I C I C I Bank Ltd.	156.6964472	211.2685269	215.0193068	114.4504413	75.94894407	79.50119946	99.09631958	163.2544481	300.8352324	546.4215004	547.6463249
I D F C First Bank Ltd.	---	---	---	---	---	---	---	---	243.1618915	115.9290971	170.6698516
IndusInd Bank Ltd.	227.7782266	114.4738887	50.7395744	28.73198514	27.71679142	31.72116297	33.78880452	31.50945168	36.51202609	39.54142143	51.65803798
Kotak Mahindra Bank Ltd.	179.1367747	240.758551	174.9579184	73.33752618	61.96422039	64.92162038	108.9162769	92.94943056	107.3243562	127.3672185	99.27289446
Punjab National Bank	65.83211514	18.4215247	54.1589048	85.9452547	153.4191311	236.9722189	287.4951262	408.5661231	865.7973545	786.2453637	1132.618265
R B L Bank Ltd.	104.3218096	69.47359497	98.38533148	36.76718424	20.59792468	11.29784509	31.47915367	27.50164533	59.39337478	64.56674173	78.63110085
State Bank of India	179.2911296	180.1053051	173.3617238	164.7020645	184.7240321	212.7815694	259.497262	214.225244	383.8695352	374.4221067	578.7657879

Yes Bank Ltd.	9.022003045	33.34235941	6.206602619	3.201377505	5.17474981	1.18581025	5.26734467	12.29843278	29.47258357	81.71483759	64.64508651
Source: Researchers Own Table											

Table:1 shows that when Gross NPA from 2008 to 2018 is at an increasing level, there will be a downfall in the Net Profit of the banks.

It is clear from the above table that the Gross NPA of Axis Bank Ltd. increases from 42.412 % to 367.74 %. The Gross NPA of Bank of Baroda, Federal Bank Ltd., ICICI Bank Ltd., Punjab National Bank, State Bank of India and Yes Bank Ltd. increases from 47.832%, 25.205%, 156.69%, 65.832%, 179.29% and 9.0220% respectively. While the Gross NPA of HDFC Bank Ltd., IDFC First Bank Ltd., IndusInd Bank Ltd. Kotak Mahindra Bank Ltd., and RBL Bank Ltd. decreases from 47.943%, 243.16%, 227.77%, 179.13%, and 104.32% respectively. This shows that the concentration of Gross NPA with some Public Sector Bank increases at a high rate.

Table: 2 Percentage of NET NPAs (2008-2018)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Company Name	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**	**Net NPA (%)**
Axis Bank Ltd.	42	40	40	29	27	36	44	44	74	227	364
Bank of Baroda	47	31	34	35	54	128	152	189	506	472	549
Federal Bank Ltd.	23	30	48	60	53	98	74	73	164	128	169
H D F C Bank Ltd.	47	63	31	19	18	20	27	25	28	33	40
I C I C I Bank Ltd.	155	209	212	111	73	77	97	161	298	543	543
I D F C First Bank Ltd.	---	---	---	---	---	---	---	---	239	114	169
IndusInd Bank Ltd.	227	114	50	28	27	31	33	31	36	39	51
Kotak Mahindra Bank Ltd.	178	239	173	72	61	64	108	92	106	126	98
Punjab National Bank	64	17	53	85	152	235	285	406	861	781	1124
R B L Bank Ltd.	99	68	97	36	20	11	31	27	59	64	78
State Bank of India	178	179	172	163	182	210	257	212	381	371	573
Yes Bank Ltd.	9	33	6	3	5	1	5	12	29	81	64
Source: Researchers Own Table											

Table: 2 shows that when percentage of NET NPA from 2008 to 2018 is at an increasing level, there will be a downfall in the Net Profit of the banks.

It is clear from the above table that the percentage of NET NPA of Axis Bank Ltd. increases from 42 % to 364 %. The percentage of NET NPA of Bank of Baroda, Federal Bank Ltd., ICICI Bank Ltd., Punjab National Bank, State Bank of India and Yes Bank Ltd. increases from 47%, 23%, 155%, 64%, 178% and 9% respectively. While the percentage of NET NPA of HDFC Bank Ltd., IDFC First Bank Ltd., IndusInd Bank Ltd. Kotak Mahindra Bank Ltd., and RBL Bank Ltd. decreases from 47%, 239%, 227%, 178% and 99% respectively. This shows that the concentration of percentage of NET NPA with some Public Sector Bank increases at a high rate. From Gross NPA, Net NPA tables, it is evident that Banks listed in the Bank Nifty Index in India have managerial efficiency in managing the NPAs. Therefore, the hypothesis (H1) can be accepted.

CONCLUSION

In conclusion, the analysis presented in Tables 1 and 2 demonstrates a significant correlation between the levels of Gross NPA and Net NPA with the profitability of banks over the period from 2008 to 2018. The data reveals that as the Gross NPA and percentage of Net NPA increase, there is a corresponding decline in the net profit of the banks under study. Specifically, the Gross NPA of Axis Bank Ltd., Bank of Baroda, Federal Bank Ltd., ICICI Bank Ltd., Punjab National Bank, State Bank of India, and Yes Bank Ltd. exhibit notable increases, indicating a concentration of NPA within some Public Sector Banks. Conversely, HDFC Bank Ltd., IDFC First Bank Ltd., IndusInd Bank Ltd., Kotak Mahindra Bank Ltd., and RBL Bank Ltd. demonstrate decreases in Gross NPA, suggesting a relatively better NPA management performance.

Similarly, the percentage of Net NPA follows a similar trend, with Axis Bank Ltd., Bank of Baroda, Federal Bank Ltd., ICICI Bank Ltd., Punjab National Bank, State Bank of India, and Yes Bank Ltd. experiencing increases, while HDFC Bank Ltd., IDFC First Bank Ltd., IndusInd Bank Ltd., Kotak Mahindra Bank Ltd., and RBL Bank Ltd. show decreases. These findings underscore the importance of effective NPA management strategies in maintaining bank profitability.

Overall, the data supports the hypothesis (H1) that banks listed in the Bank Nifty Index in India demonstrate managerial efficiency in managing NPAs. This suggests that while challenges exist, banks have demonstrated the capability to mitigate the adverse effects of NPAs on their profitability through strategic management practices.

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