NON-PERFORMING ASSETS: AN ANALYSIS OF SELECTED PUBLIC SECTOR BANKS

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ABSTRACT

Non-Performing Assets in the current environment are increasing at drastical rate. The amount of loan unpaid becomes nonperforming asset for bank. this study, by correlation attempts to find if the profit of banks is affected by non-performing assets or not. For this purpose the top 3 banks in public sector chosen and analysed. From the study, it was found that the amount of non-performing asset directly impacts on profitability of any bank.

KEY WORDS *Public Sector Banks, GNPA, NNPA*

INTRODUCTION:

NPA is referred as non-performing asset. This is a banking term used to define the advances which provide no income in form of interest or principal amount or both. During recent times, the quantum of NPA is a matter of worry as it shows an increasing trend. They are the advances which doesn't generate income for Bank. This word was first tossed by Narsimham Committee in 1991. The bank is a mediator for sound financial system of a country. It collects deposits from general public and grants loans by utilizing the same. The public sector banks are most affected by non-performing assets. Bank loses capacity to earn interest as well as the loss of principal amount granted as loan due to non-performing asset. RBI provided guidelines for measuring loans and created different policies in order to face this bleeding issue.

CONCEPT OF NPA

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained 'past due' for a specified period of time.

The specified period was reduced in a phased manner as under:

Year ending March 31	Specified Period
1993	four quarters
1994	three quarters
1995 onwards	two quarters

-Reserve Bank of India

PROVISIONS FOR NPA

The assets are classified into three different categories and based on the classification; the provision as per cent of total amount is required to be made. For standard assets, the provision of 0.25 percent is made. In substandard asset, the provision is made of 20 percent of amount if it remains for a year. If the asset remains in substandard category more than a year upto three years, the provision made is of 30 percent. if asset remain in the category for more than 3 years, 50 percent of the amount is allotted for provision. If assets are classified as loss assets, whole amount i.e., 100 percent is written off as provision.

REVIEW OF LITERATURE

Jyotirmoy Koley (2019) have conducted an Analysis of Financial Position and Performance of Public and Private Sector Banks in India: A Comparative Study on SBI and HDFC Bank. She found that management efficiency is higher in HDFC Bank.

Irfan Ahmad and Nisha Khan (2019) have conducted A Comparative Analysis of NPA between SBI and ICICI bank to find out the managerial efficiency of selected banks. They found an increasing trend in gross NPA as well as Net NPA during study period describing quantum of problem.

R.S.N. Sharma (2019) in the research paper titled A Research on Nonperforming assets of Banks in India tried to find the reasons and suggestions for prevention of NPAs. He found an increasing trend in nonperforming assets in increased rate. He also found higher level of NPAs in private sector banks, too.

Numer P. and Devika P. (2019) have analysed A Study on Comparative Analysis of Non-Performing Assets in Selected Private Sector Banks. They found that net profit of the selected banks can be affected by the amount of nonperforming assets in the bank.

OBJECTIVES OF THE STUDY
➢ To analyse the trend of Net Profit and net NPA in selected banks
➢ To check if there is any relation in Net Profit and Net NPA for selected banks
➢ To provide suggestions thereof

RESEARCH METHODOLOGY

Type of research	Analytical
Sources of Data	Various websites, annual reports, journals, etc.
Study period	five years ending on 2018-19
Statistical tools	Ratios, correlation
Sample selection criteria	Top 3 public sector banks on the basis of market capitalization

DATA ANALYSIS AND INTERPRETATION
State Bank of India

Particular	2014-15	2015-16	2016-17	2017-18	2018-19
NNPA	27.590.58	55,807.02	58,277.38	1,10,854.70	65,984.74
NP	13,101.57	9,950.65	10,484.10	-6,547.45	862.23

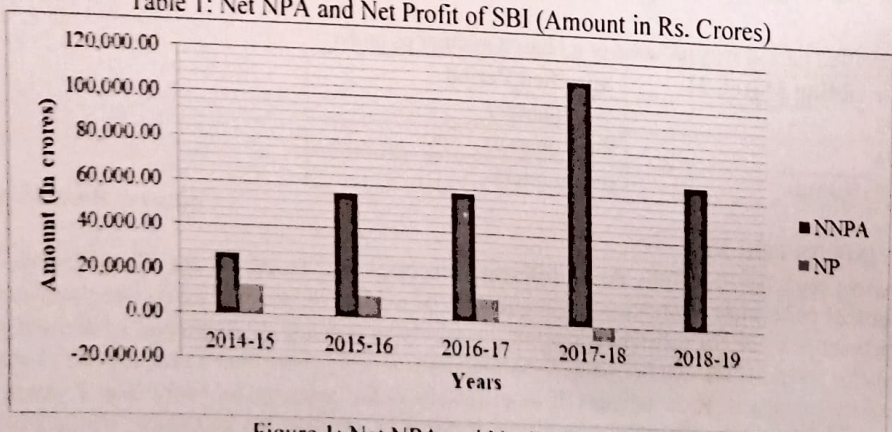Table 1: Net NPA and Net Profit of SBI (Amount in Rs. Crores)

Figure 1: Net NPA and Net Profit of SBI

Analysis: The Net Non-performing assets were at 27590 crores in 2014-15 whereas profit stood at 13101 crores. in the next year the Net Non-performing assets stood at 55807 crores and profit was at 9950 crores. in 2016-17, the Net Non-performing assets further increased and stood at 58277 croers and profit was at 10484 crores. in 2017-18, there was loss amounting to 6547 crores and on the other side, Non-performing assets merely doubled at 110854 crores. in the next year,

the non-performing assets were at 65984 crores and the profit was at 862 crores. The Non-performing assets as well as Net profit of the bank was showing mixed trend during selected years.

Correlation

Bank	Variables	r
State Bank of India	Net Non-Performing Assets / Net Profit	-0.92

There is perfectly negative correlation between NNPA and NP for State bank of India

Bank of Baroda

Particular	2014-15	2015-16	2016-17	2017-18	2018-19
NNPA	8,069.49	19,046.46	18,080.00	23,483.00	15,609.50
NP	3,398.44	-5,395.54	1,383.14	-2,431.81	433.52

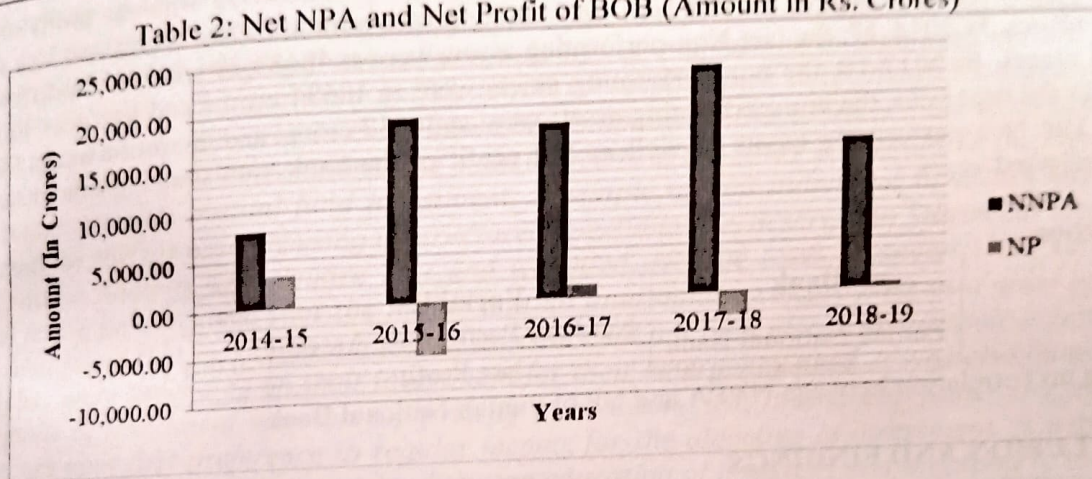Table 2: Net NPA and Net Profit of BOB (Amount in Rs. Crores)

Figure 2: NNPA and NP of BOB

Analysis: The Net Non-performing assets were at 8069 crores in 2014-15 whereas profit stood at 3398 crores. in the next year the Net Non-performing assets were at 19046 crores and loss was at 5395 crores. In 2016-17, the Net Non-performing assets were at 18080 croers and profit was at 1383 crores. In 2017-18, the non-performing assets were at 23483 crores and loss was 2431 crores. In the next year, the non-performing assets were at 15609 crores and the profit was at 433crores. The Non-performing assets as well as Net profit of the bank was showing mixed trend during selected years.

Correlation

Bank	Variables	r
Bank of Baroda	Net Non-Performing Assets / Net Profit	-0.72

There is negative correlation between NNPA and NP of Bank of baroda.

Punjab National bank

Particular	2014-15	2015-16	2016-17	2017-18	2018-19
NNPA	35,422.56	32,702.10	48,684.29	48,684.29	30,037.66
NP	3,061.58	-3,974.39	1,324.80	-12,282.82	-9,975.49

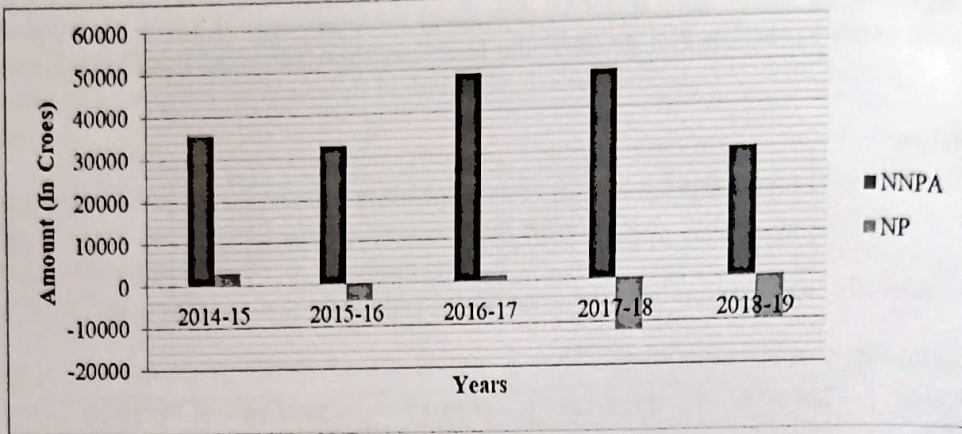Table 3: Net NPA and Net Profit of PNB (Amount in Rs. Crores)

Figure 3: NNPA and NP of PNB

Analysis: The Net Non-performing assets were at 35422 crores in 2014-15 whereas profit stood at 3061 crores. In the next year the Net Non-performing assets were at 32702 crores and loss was at 3974 crores. In 2016-17, the Net Non-performing assets were at 48684.29 croers and profit was at 1324 crores. In 2017-18, the non-performing assets were at 48684 crores and loss was 12282 crores. In the next year, the non-performing assets were at 30037 crores and the profit was at 9975 crores. The Non-performing assets as well as Net profit of the bank was showing mixed trend during selected years.

Correlation

Bank	Variables	r
Punjab National Bank	Net Non-Performing Assets ÷ Net Profit	-0.001

There is no correlation between NNPA and NP of Punjab National Bank

CONCLUSION AND FINDINGS:
The present study is aimed to focus the burning issue of non performing assets over study period of selected banks. In all three banks during the years for study, trends of gross as well as net NPA were similar. The NPA ratios were higher in Punjab National Bank than the other two banks. This directs on higher levels of Nonperforming assets in Punjab National Bank than other two. the correlation study found that there was negative correlation with Net Nonperforming assets and Net profit of SBI and BOB. But on the other side, no significant relationship is found with Punjab National Bank. It concludes that the profit capacity was affected in this bank was not only with nonperforming assets, but with other factors, too.

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