

RISE OF NPAs AND ITS IMPACT ON THE PERFORMANCE OF INDIAN BANKING SECTOR

REETIKA VERMA

Abstract: Nowadays, the problem of NPAs (non performing assets) is not only affecting the banks but also the whole economy. Bank's profitability gets affected by the amount of NPAs it has. This paper aims to analyse the impact of NPAs on bank's performance of selected banks during the past 5 years (2016-2020). After collecting the necessary data and analysing it ,it has been observed that there is significant inverse impact of NPAs on the profitability of the selected banks and strict measures are required to be taken so that banks can easily tackle the NPAs and can maintain their profitability.

Keywords: Gross NPAs, net NPAs, return on assets, public and private sector banks.

1. INTRODUCTION

Banking sector plays very important role in the growth and development of any economy. Banking sector of Indian economy is facing a great challenge of NPAs. Non performing asset is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days. It is the need of the hour to understand the criticality of NPAs crisis and take appropriate remedial actions. Efficient credit appraisal , more technological developments, formulation of mechanism to identify hidden NPAs, more skills development of bank employees and many other things can be done in order to tackle NPAs. In order to maintain the profitability of the banking sector, it is very important to solve the problem of rising NPAs. Banks must control NPAs to avoid serious consequences in the future.

OBJECTIVES

- *To know the amount of NPAs in the selected banks during past 10 years.
- *To study the impact of NPA on bank's profitability (measured by return on assets).
- *To provide recommendations to lower the level of NPAs.

2. LITERATURE REVIEW

S.NO.	RESEARCH PAPER NAME	AUTHOR	YEAR	OBJECTIVE	CONCLUSION
1.	A critical review of NPAs in the Indian banking industry.	Varuna Agarwala, Nidhi Agarwala	2019	To make comments relating to the growth pattern of gross NPAs.	NPAs impact profitability of banks and the economic growth.
2.	Impact of NPAs on financial performance of Indian banking sector.	Rashmi Kumari,Prabhat Kumar Singh,V.C. Sharma	2018	To examine the relationship between NPAs and financial performance of selected public and private sector banks.	Gross NPA and net NPA has positive and significant impact on return on assets of public sector banks and no impact on private sector banks.

3.	NPA: Recovery measures and role of bankers.	Chandan Mohanty	2019	To study the measures to tackle NPAs.	Profitability of banks depends upon level of NPAs and various other factors as well.
4.	The rise of NPAs in the Indian banking sector.	Abhishek Kumar Singh, Nayan Agarwal, Sarika Prakash, Abhishek Venkteshwar	2019	To discover the quantum of NPAs in open area and private sector banks in India.	There is an urgent need to do appropriate banking reforms in the country.
5.	A study on the analysis and comparison of NPA of Canara and HDFC bank.	Satheeshkumar.C	2018	To analyze and compare the NPAs of HDFC and Canara bank.	In the year 2011-15 HDFC bank have higher debt as compared to Canara bank and corrective measures should be taken to control it.
6.	Forecasting NPAs for Indian banking sector.	Rinku Kumar Dixit, Shailee L Chaudhary	2019	To forecast NPAs for commercial bank, SBI and PNB of Indian banking sector.	The pace of increasing NPA in PNB is higher than SBI and commercial banks.
7.	Recovery mechanisms of NPAs in Indian commercial banks : an empirical study.	Surojit Dey	2018	To analyze recovery channels of NPAs.	Banks have to exercise powers of inspection to ensure end utilization of fund.
8.	Analyzing the impact of NPAs on Indian banks.	Kapil Singla, Dr. Amit K Srivastav	2016	To analyze the NPA levels of SBI branch.	There is a significant impact of non priority sector advances on total NPAs of SBI bank in Indian branch.
9.	A study on analysis of NPAs and its impact on profitability	B.Senthil Arasu, P. Sridevi, P. Nageswari, R. Ramya	2019	To know the level of NPAs of public and private sector banks To offer the recommendations to the regulators and policymakers.	The study recommended necessary steps to reduce the NPA and improve the recovery mechanism.
10.	A study on comparative analysis of NPAs in selected private sector banks.	Numer P, Devika P	2019	To measure the effect of NPA in selected private sector performance banks performance.	Indusland bank is good in recovering the NPA and maintains their net profit and can move with the positive outgrowth for next financial years.

3. LIST OF SELECTED BANKS

1. ICICI bank (Industrial credit and investment corporation of India).
2. HDFC bank (Housing development finance corporation).
3. SBI bank (State bank of India).

4. IDBI bank (Industrial development bank of India).
5. PNB (Punjab national bank).
6. Axis bank.
7. Kotak Mahindra Bank.
8. Central bank of India.
9. Canara bank.

4. DATA COLLECTED

The nature of data used in this study is secondary in nature. For the purpose of this study, secondary data is collected from financial statements of the banks and the annual reports of banks are also used to get the data. Money control website is used to collect the NPAs and profitability information of all the banks.

Following data is collected: -

ICICI BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	26720.93	42551.54	54062.51	46291.63	41409.16
NET NPA	13296.75	25451.03	27886.27	13577.43	10113.86
RETURN ON ASSETS	1.49	1.10	0.87	0.39	0.81

HDFC BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	4392.83	5885.66	8606.97	11224.16	12649.97
NET NPA	1320.37	1843.99	2601.02	3214.52	3542.36
RETURN ON ASSETS	1.92	1.88	1.93	1.90	2.01

SBI BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	98172.80	112342.99	223427.46	172750.36	149091.85
NET NPA	55807.02	58277.38	110854.70	65894.74	51871.30
RETURN ON ASSETS	0.46	0.41	-0.19	0.02	0.38

IDBI BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	24875.07	44752.59	555888.26	50027.94	47272.37
NET NPA	14643.39	25205.80	28665.14	14837.44	5439.49
RETURN ON ASSETS	-1.07	-1.38	-2.46	-4.68	-4.26

PNB (PUNJAB NATIONAL BANK)

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	55818.33	55370.45	86620.05	78472.70	73478.76
NET NPA	35422.57	32702.11	48684.29	30037.66	27218.89
RETURN ON ASSETS	-0.61	0.19	-1.60	-1.25	0.04

AXIS BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	6087.51	21280.48	34248.64	29789.44	30233.82
NET NPA	2522.14	8626.55	16591.71	11275.60	9360.41
RETURN ON ASSETS	1.72	0.65	0.04	0.63	0.20

KOTAK MAHINDRA BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	2838.11	3578.61	3825.38	4467.94	5026.89
NET NPA	1261.96	1718.07	1665.05	1544.37	1557.89
RETURN ON ASSETS	1.19	1.73	1.73	1.69	1.87

CENTRAL BANK OF INDIA

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	22720.88	27251.33	38130.70	32356.04	32589.08
NET NPA	13241.80	14217.83	17377.87	11333.24	11534.46
RETURN ON ASSETS	-0.48	-0.80	-1.61	-1.70	-0.35

CANARA BANK

	MARCH2016	MARCH2017	MARCH2018	MARCH2019	MARCH2020
GROSS NPA	31637.83	34202.04	47468.47	39224.12	37041.15
NET NPA	20832.91	21648.98	28542.40	22955.11	18250.95
RETURN ON ASSETS	-0.52	0.20	-0.75	0.06	-0.32

5. OBSERVATIONS

From the data collected following observations are made: -

It can be clearly observed from the numbers that NPAs have impacted return on assets (profitability) of all the selected banks significantly.

- ❖ As the amount of gross or net NPAs increases in most of the cases the profitability lowers down. So, there is an inverse relation between profitability and non-performing assets of the banks.
- ❖ A clear and complete inverse relationship between NPAs and profitability of ICICI bank, SBI bank, konak Mahindra bank can be observed from the data collected during 2016-2020.
- ❖ In case of HDFC bank, no direct inverse relation can be observed between NPAs and return on assets of the bank. During 2018 amount of NPAs of the bank increases but despite that the bank has been able to maintain its profitability and its return on assets also rises in that same year.
- ❖ In case of IDBI, PNB, Axis bank, Central bank of India, Canara bank a complete inverse relation cannot be observed between NPAs and the profitability of the banks during the 5 years of study. In all these banks, the return on assets does gets significantly impacted by the rise in the amount of net and gross NPAs but there is no inverse relation between profitability and NPAs as it can be observed from the data collected from 2016 to 2020.

6. CONCLUSION

From the data collected and the analysis made in this study, it can be clearly observed that how and why NPAs are great challenge for the banking sector of India. Out of the selected banks, some banks are able to maintain or increase return on assets despite of increasing amount of NPAs during some years but most of the banks are not able to maintain the same

level of profitability due to rising NPAs. Rising NPAs are serious issue that impacts the growth and development of the Indian banking sector. Banks should continuously monitor loans to identify accounts that have potentials to become non performing in the future. It is the need of the hour to understand the criticality of NPAs crisis and take appropriate remedial actions. Efficient credit appraisal, more technological developments, formulation of mechanism to identify hidden NPAs, more skills development of bank employees and many other things can be done in order to tackle NPAs. Banks must control NPAs to avoid serious consequences in the future. This study recommends the regulators and the bank officials to take necessary steps to reduce the NPAs and to improve the recovery system.

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