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2. A Study on Impact of Non-Performing Assets on Profitability and Liquidity of Commercial Banks

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Abstract

Commercial banking plays a vital role in enriching the social and economic life of a country. It may not contribute much to growth of the country when non-performing assets more in banking sectors. In the last decade the banking industry of India has experienced exponential growth. The reforms of 1991 and 1998 have helped improve the performance, profitability, liquidity, and efficiency of the Indian banking system. The Indian economy grew at an 8.6 per cent and 9.3 per cent 2009- 2010 and 2010 -2011 after the financial crisis in 2007-2008. In 2012 inflation rate double digit and in May 2013 it was 9.3 per cent. Growth rate of the country decreased from 6.2 per cent to 5.0 per cent. This increasing inflation rate impacted not only investors but also economic growth of the country. NPA more profitability ratio. This research paper reveals that NPA also shows the relationship between advances which were given to customers. There are more chances for more NPA when advances given are more.

Origin of the Research Problem

The problem of NPAs is not only affecting the banking industry but also the whole Indian economy. Non-performing assets of banks are one of the biggest hurdles in the way of socio-economic development of India. The level of NPAs of the banking system in India is still too high. It affects the financial standing of the banks so that it is a heavy burden on the banks. After the global financial crises in 2008.

Significance of the Study

Intervene and solve the problem NPA which gives growth for Indian banks.

Objectives of the Study

1. To study the trend of Non-Performing Assets (NPA) in selected commercial banks.



2. To analyze the impact of NPA on profitability and liquidity of selected commercial banks.

3. To give conclusion, suggestion and recommendations

iv. Methodology and Plan of Work

Data for this study will be collected from the 10 banks payers, which are located in Mumbai - Maharashtra-India. This study will collect the data from who are expert. The systematic method will be used for collection information about NPA and profitability and liquidity on banks.

Data Collection

Both primary and secondary sources of data will be considered for collection of data.

Primary Data

The primary data will be collected from expert person, for that questionnaire will be developed and implemented for collecting data form various banking field.

Secondary Data

The secondary data will be collected from the following sources:-

1. Published Books.
2. Published articles, reports, newspapers and other periodicals.
3. Government publications with reference to subject under study.
4. The websites providing complementary information.
5. The unpublished work form different libraries.

Introduction

Non-performing asset is the very important term for the banking corporations. It indicates the efficiency of the performance of the banks. A strong banking sector is always important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. Non-performing assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders' value. The problem of NPAs is not only affecting the banks but also the whole economy. In fact level of NPAs in Indian banks is nothing but a reflection of the state of health of the industry and trade. However lending also carries a risk called credit risk, which arises from

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the failure of borrower. Non-recovery of loans along with interest forms a major hurdle in the process of credit cycle. Though complete elimination of such losses is not possible, but banks can always aim to keep the losses at a low level.

Non-Performing Assets is the amount which is not received by the bank in return of loans disbursed. The amount of Non-Performing Assets affects not only the banking industry but the total financial system and there by the economy of the country. Thus a selective study has been done on commercial banks in India to evaluate the effect of Non-Performing Assets on the profitability of banks.

SBI and 5 nationalized banks were selected for the study and the relation between their gross Non-Performing Assets and net profit was measured. The result shows that except for SBI all the other banks exhibit a negative correlation between their gross Non Performing Assets and net profits. But for SBI the net profit is not at all affected by Gross Non Performing Assets and it is in continuous profits only. RBI reported that Indian Banking sector is considered one of the strongest among the other banking sectors. During 2008, Sub Prime Crisis India was among the least affected countries because of the strict rules and regulations of Indian banking sector. Indian banking industry is classified into Public sector banks, Private Sector banks, and Regional rural banks and Cooperative banks. In India there are 27 Public sector banks of which 17 banks are nationalized. Indian banking industry announced deposits of Rs. 85331billions and loans and advances of Rs. 67352 billion for 2014 as against Rs. 74297 billion and Rs. 58798 billion in 2013. But the net profit is Rs. 912 billion in 2013 and Rs. 809 billion in 2014. The loans and advances and deposits have been increased 14.5% and 14.3% respectively but net profit has been reduced by 11.3%. This is mainly because of increase in gross nonperforming assets by 36.1%.

Definition:

An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as non-performing asset (NPA) based on the concept of 'Past Due 'A' 'non-performing asset' (NPA) was defined as credit in respect of which interest and/or installment of principal has remained 'past due' for a specific period of time. Reserve Bank of India.



Types of NPA: There are three major types of NPA:

Sub-standard: The account holder belonging to this category don't pay three installment continuously after 90 days and up to 1 year. Bank has made 10% provision of funds for this category to meet the losses generated from NPA from their profit.

Doubtful NPA: Doubtful NPA are classified into three sub categories:

20% provision is made by the banks for D1 i.e. up to 1 year

30% provision is made by the bank for D2 i.e. up to 2 year

00% provision is made by the bank for D3 i.e. up to 3 year.

Loss Assets: When account holder belongs to this category 100% provision is made by the banks to write off their accounts. After this the assets are delivered to recovery agents for the purpose of sale.

Reasons behind NPA

Default of a loan intentionally

Frequent shuffle of govt. policies leads to NPA.

Customer has taken the loan for nonperformance of business

Most of the loan sanctioned for agricultural purposes

Negligent pre-enquiry by the bank for sanctioning the loan to a customer.

Effects of NPA on Banks & FI

Continuous draining of profit.

Negative impact on goodwill.

Adverse growth of equity value.

Restricted cash flow by bank due to provision of fund created against NPA.

Gross NPA and Net NPA:

Gross NPA is advance which is considered irrecoverable, for whom the bank has made

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Data analysis Data is collected for two banks related to GNPA and NNPA and is compared and conclusion and suggestions are given.

Limitations of the Study

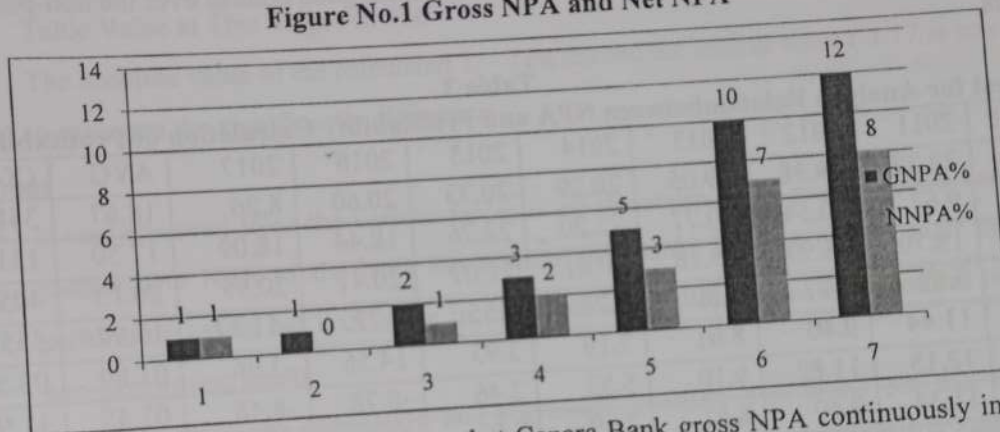
- 1) The study is based on the data given by the officials and reports of the bank.
- 2) The study is based only on NPA section of the bank.

- 3) The solutions are not applicable to every bank.
- 4) Due to time constraint depth analysis could not be made.

Table No.1 Canara Bank

SR	E.S.	ADV	GNPA	GNPA%	NNPA	NNPA%	NNPA TO AD.
1	443	211268	8089.40	1.00	2347.33	1.00	1.00
2	443	232489	4031.75	2.00	3386.31	1.00	1.00
3	443	242177	6260.16	3.00	5758.07	2.00	2.00
4	461	301067	7570.21	2.00	5965.46	2.00	3.00
5	475	330035	13039.96	4.00	8740.09	3.00	6.00
6	543	324742	31634.83	9.00	20832.91	6.00	6.00
7	597	342009	34202.04	10.00	21949.98	6.00	6.00

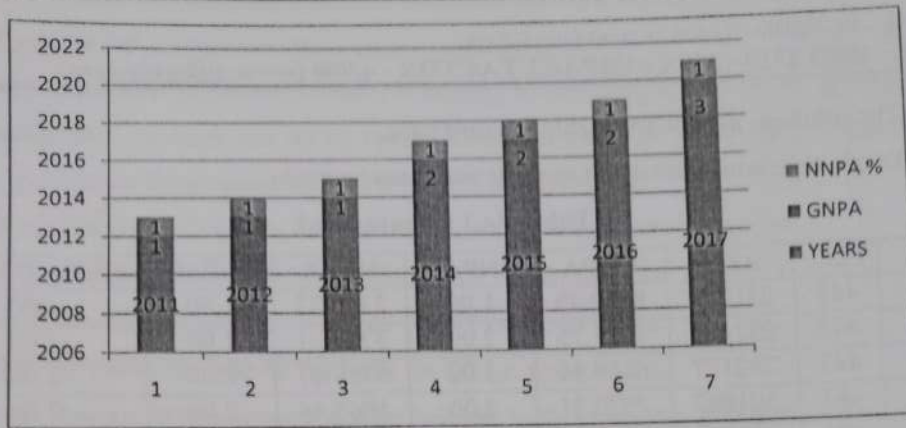
Figure No.1 Gross NPA and Net NPA



From the table 1. It clearly shows that Canara Bank gross NPA continuously increasing in the year 2011 it was 1 percent and 2017 it was 10.00 which is very risk for the bank. Net NPA also shows increasing trend due to mismanagement in loans given to various customers of the bank.

Table No.2. Bank of Kotak

Years	E.S.	ADV	GNPA	GNPA%	NNPA	NNPA %	NNPA TO AD.
2011	368.44	39079.23	603.49	1.00	211.16	1.00	1.00
2012	370.34	29329.31	614.19	1.00	237.38	1.00	1.00
2013	373.34	48468.98	758.11	1.00	311.41	1.00	1.00
2014	385.16	53027.63	1059.44	2.00	573.66	1.00	1.00
2015	386.18	66160.71	1237.23	2.00	609.08	1.00	1.00
2016	917.19	118665.71	2838.11	2.00	1261.96	1.00	1.00
2017	920.45	136082.13	3578.60	3.00	1718.10	1.00	1.00



Form the above figure it clearly reveals that Gross NPA remain same for the first four years and net npa remain same for the first three years and thereafter it in double and remain the same from 2014 to 2017 this shows that bank of Kotak has good control over the non-performing assets.

Table 3

T -test for Analysis Relationbetween NPA and Profitability Calculation of Profitability

NAME	2011	2012	2013	2014	2015	2016	2017	AVG	(X-X)S
Axis	22.37	19.38	19.05	20.29	20.73	20.60	8.26	18.67	348.57
ICICI	9.67	10.54	20.77	22.20	22.76	18.44	18.09	17.50	131.25
HDFC	19.70	18.93	19.18	20.61	21.07	20.41	20.99	20.13	405.22
BOM	5.93	5.97	7.90	3.22	3.55	0.77	-11.37	15.97	255.04
YES	11.44	9.40	8.61	7.19	3.93	14.56	-3.96	01.89	03.57
DENA	12.15	11.82	9.10	5.52	2.46	-8.78	-8.48	03.45	11.90
BOI	11.54	9.40	8.61	7.19	3.93	14.46	-3.96	03.12	09.73
							TOTAL	11.53	1162.28

Average Profitability = 11.53 AndND Total of (x-X) s = 1162.28

Using Formula of Standard Deviation = $1162.28/7-1 = 193.71$

Square root of 193.71 = 13.91

Table 4

Calculation of NPA

NAME	2011	2012	2013	2014	2015	2016	2017	AVG	(X-X)S
Axis	0	0	0	0	0	1	2	0.43	0.18
ICICI	1	1	1	1	2	3	5	2.00	4.00
HDFC	0	0	0	0	0	0	0	0.00	0.00
BOM	1	1	1	2	4	6	12	3.86	14.90
YES	0	0	0	0	0		1	0.14	0.02

DENA	1.22	10.04	1.04	2.34	1.74	4.03	10.23	4.38	19.18
BOI	1	1	2	2	3	8	7	3.43	11.76
							Total	2.03	50.04

Average percentage of net NPA = 2.03 and total (x-x)s = 50.04

Using formula of standard deviation = $50.04/7-1 = 50.04/6 = 8.36$

Square root of = $8.36 = 2.8879$

T-test for analysis relation between NPA and Profitability

$2.03-11.53/193.71/7-8.36/7 = 27.67-5.14 =$ Takeing Root Of 27.67 AND $5.14 =$

$5.26+2.89 = 8.15$

$-9.50/8.15 = -1.17$

Table Value at This Stage = 2.776

The absolute value of the calculated T - Test exceed the critical value (-1.17 is less than 2.776) so mean are the significantly difference.

Findings

- It was observed from the various tables is all the seven years private sector banks well control over NPA of the bank but nationalized banks has not control over their non-performing assets but later stage in 2016 and 2017 they do not have control over their non-performing assets.
- Using the Pearsons correlation and regression analysis it is found out that there is a significant relation between NPA and productivity of the bank. Negative correlation is established between productivity and NPA i.e. when increased production decreases and vice-versa.
- From the various tables shows that advances were increasing trend and at the same time there were increasing trend in NPA also due to no control over their non-performing assets.

Suggestions

- The banks should take care to ensure that they give loan to creditworthy customer as prevention is always better than cure.
- Enough precautions and timely follow up should be taken to recover the loan amount from customers.
- Banking sector should take a strike action to avoid the NPA.



- To improve the inefficiency and profitability the NPA's had to be rescheduled.

Conclusion

T-test by analyzing the test result one can say that there is always a large impact of NPA over the profitability of the banking sector. NPA shows that more NPA ratio less profitability ratio. And whenever there is less NPA more profitability ratio. NPA also shows the relationship between advances which were given to customers. There are more chances for more NPA when advances given are more.

It is one of the most important difficulties to banking sector to bring the profitability ratio at zero level. In other words it is impossible for banks to bring the profitability level at zero level. The T-test analysis also indicates that NPAs for the commercial banks NPA rising in increasing trend was a very serious note for banking sector. NPAs are decreasing the capital of banking sector and weakening their financial strength it is also as much a political and a financial issue.

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