

# A Study on Impact of Non-Performing Assets on Profitability of Public and Private Sector Banks

<sup>1</sup>Krupal A Chaudhari

<sup>2</sup>Dr. Taral M Patel

Corresponding Author

Chaudhari Krupal

B.V. Patel Institute of Management,

Uka Tarsadiya University, Bardoli,

Gujarat, India

**Abstract: - The banking sector is a support of a nation's financial system. Measuring and maintaining the asset quality of banks is important for the development of the Indian banking sector. Nowadays, the Public Sector Banks is constantly causing painful stress to the banking sector, and Indian economy. The objective of the present study is to highpoint the level of Non-Performing Assets, and how it influences the profitability of the banks. For this purpose, the study considered Gross and Net NPA of 10 banks, five Public & five Private sector banks from the period of 2015 to 2019. The study identified that both the public and private sector banks gradually increase their Gross & Net NPA during the study period. The study found that there is a significant positive relationship between Gross NPA and Net NPA of public and private sector banks. The study also found a significant negative relationship between NPA with Return on Assets of public & private sector banks. The impact of public and private sector banks significantly influences the Gross and Net NPA.**

**Keywords:-** *Non-Performing Assets, Public and Private Sector Banks, Return on Assets,*

## I. INTRODUCTION

The banking sector play a very important role in nation's financial system as it performs multitudinous functions in terms of, liquidity and risk management. It has immense significance in the development of all the sectors in our economy. As India is the world's largest independent democracy and also an emerging enormous economic giant its needs huge support and successful banking system which brings magnificent affluence in all the aspects of the country [1]. A sound banking system mobilizes the small and scattered savings of the community, and makes them available for investment in productive enterprises [2]. the present study focuses on identifying which sector of banks are more defaulter in respect of Non-Performing Assets on Profitability of Selected Banks. This study attempts to examine the impact of NPA of Profitability of Banks. The study covered the Review of Literature, Statement of

Problem, Objectives, Research Methodology Result analysis & Discussion, and Conclusion.

## II. REVIEW OF LITERATURE

Many studies have been concluded in the field of banking research regarding Non-Performing Assets and Return on Assets on Public and Private Sector banks.

**Senthil Arasu P. Sredevi and Nageswary R.** (2019) Analyse the Impact of NPA on Profitability, the purpose was to understand the NPA level and its impact. They found that a negative relationship between NPA with Return on Assets(ROA). **Kavita Nachimuthu and Muthukrushna Veni** (2018) had done Study on impact of NPA on Profitability in Indian Scheduled Commercial Banks to identify NPA Trend and impact on ROA of banks. The study concluded that the NPA or bad loans are adversely affecting the world economy from time to time. **Dr.Ujwal M. Mishra and Jayant R. Pawaskar** (2017) had done study on impact of NPA and its impact on Banking Sector to understand the level of NPA Sector Wise. study was based on secondary data pertaining to the period 2011-16.it found that the bank had an increasing trend of NPA in last four years. **Chaitra K. S. and Vasu V.,** (2018), A Comparative Study on Non-Performing Assets Od Selected Private and Public Sector Banks, Study where compare the NPA of both and they found that public sector banks have highest rate of NPA. **Dr. Nilam Panchal,** (2018), A Study on Non-Performing Assets: A Comparative Study of Public and Private Sector Banks. They had been found that the private sector banks are much healthy than public sector.

## III. STATEMENT OF PROBLEM

Non-Performing Asset is the key term for the banking corporations. Non-Performing Assets show the competence of the performance of the banks. From, the last few months ago we heard about NPA, that is the Bank had increased NPAs Drastically.

<sup>1</sup> Student, B.V. Patel Institute Management, Uka Tarsadiya University, Bardoli, Gujarat, India

<sup>2</sup> Assistant Professor, B.V. Patel Institute Management, Uka Tarsadiya University, Bardoli, Gujarat, India

Banks had declared losses in last quarter of 2019 due to NPAs. Banks are providing large amount of loans to the corporates without configuring the overall process, they grant loans. NPA not only affect banks profitability but also to the economy. As the NPA of the banks will rise, it will bring a scarcity of funds in the Indian security markets Against this background, the present study focused on the level of NPA and how it influences the profitability of banks.

**IV. OBJECTIVES**

- To study trend of Non-Performing Asset of Private and Public Sector banks in India.
- To highpoint the NPAs position of selected Public Sector Banks and Private Sector Banks during study period
- To examine the impact of non-performing assets on the profitability of banks.

**V. RESEARCH METHODOLOGY**

- *Hypothesis of the study*
- H1: There is no significant Correlation between NPA and ROA of Selected Banks [3].
- H2: There is no significant impact of Non-Performing Assets on Profitability [3].

The study is a causal and analytical in nature with a bid to find cause in financial performance of Public and Private Sector Banks(selected).

The present study is based on Secondary data were 10 Banks selected, five from public sector banks (SBI, PNB, BOB, Canara Bank and Syndicate Bank) and five from private sector banks (HDFC, ICICI, Yes Bank, Kotak Mahindra Bank and Axis bank) consider based on highest NPAs. The study is done on the basis of data for the period of 5 years from the financial year 2015-2019.

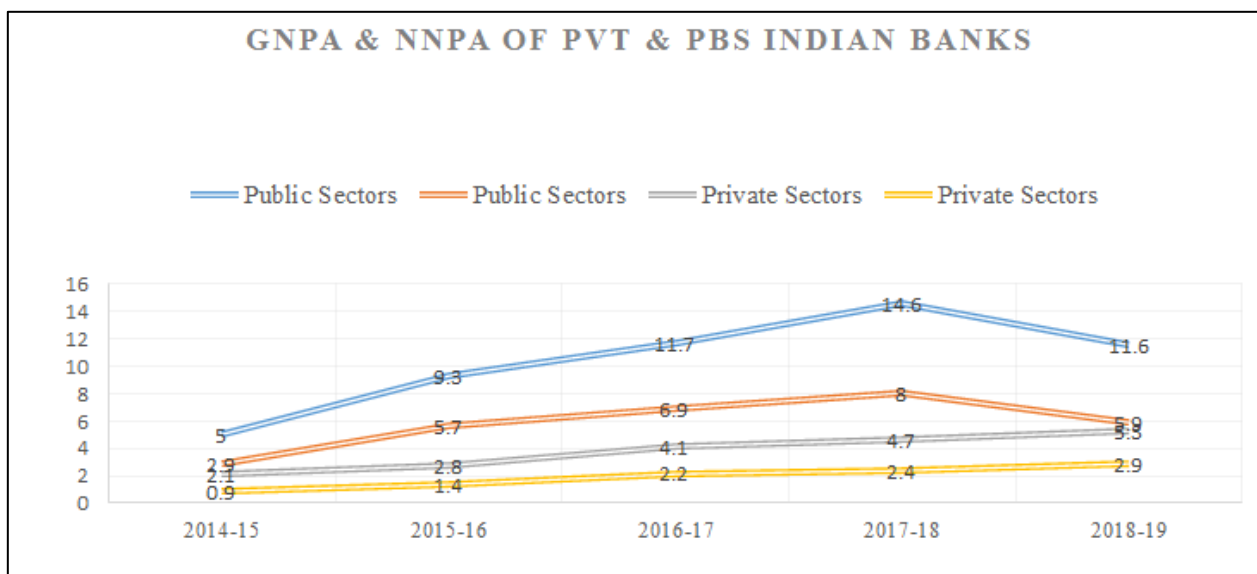
Gross Non-Performing Assets, Net Non-Performing Assets, and Return on Assets are used as sample variable. Correlation and Regression model are used to analyze the data.

The limitation of present study that, the data are changed time to time and also focused on selected banks only.

**VI. RESULT ANALYSIS & DISCUSSION**

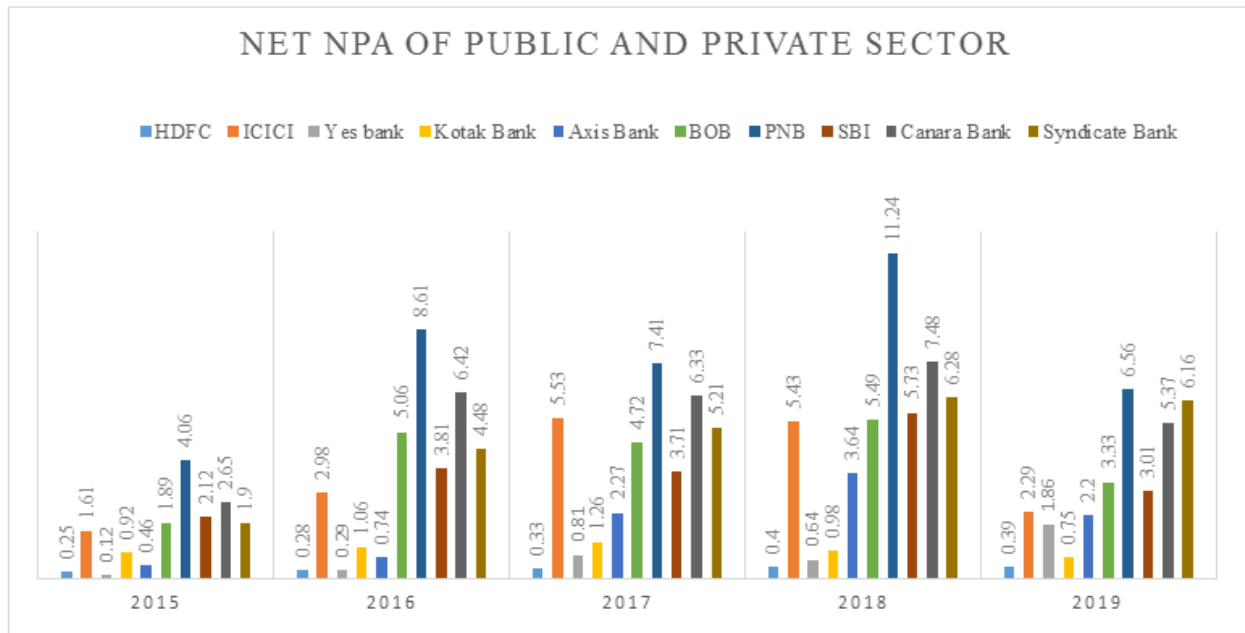
	Public Sectors		Private Sectors	
	Gross	Net	Gross	Net
<b>2014-15</b>	5	2.9	2.1	0.9
<b>2015-16</b>	9.3	5.7	2.8	1.4
<b>2016-17</b>	11.7	6.9	4.1	2.2
<b>2017-18</b>	14.6	8	4.7	2.4
<b>2018-19</b>	11.6	5.9	5.3	2.9

Table 1:- Indian Public & Private Sector Banks (includes all)



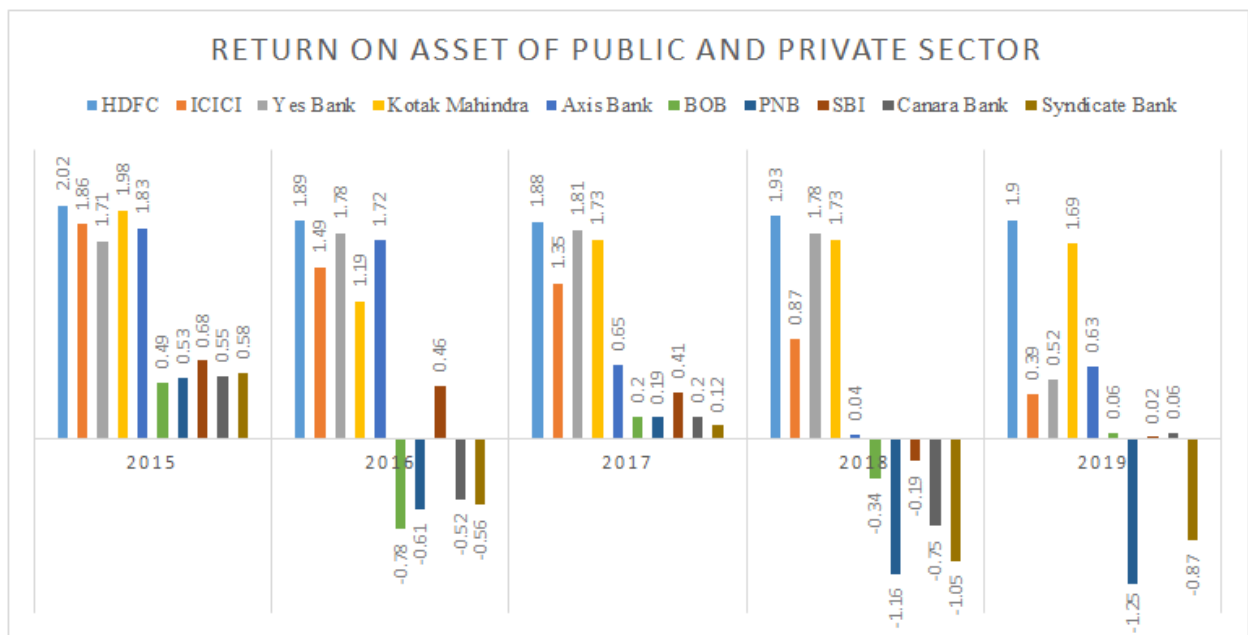
(Self-Computed)

Fig 1:- Shows the Trend of NPA of Public Sector Banks of Indian Scheduled commercial bank. The trend of NPA steadily up and in the year 2018 it goes down and that can be seen in figure. The highest NPA of public sector in the year of 2018 and lowest in 2014.



(Self-Computed)

Fig 2:- Shows the Trend of Net NPA of Public and Private Sector Banks. It can be seen that the Punjab National Bank has Highest Net NPA from public sector and ICICI bank from private sector bank in every year of study period. HDFC bank has the lowest Net NPA that can be seen in this figure.



(Self-Computed)

Fig 3:- ROA of Public Sector Banks has shown downward trend. ICICI banks Profit Decline Drastically year on year. The worst ROA is of PNB and Syndicate bank. HDFC has highest Net Profit.

Result of Cross Correlation						
	GNPA Pub	GNPA Pvt	NNPA Pub	NNPA Pvt	ROA Pub	ROA Pvt
GNPA Pub	1					
GNPA Pvt	0.971	1				
NNPA Pub	-0.72	-0.716	1			
NNPA Pvt	-0.55	-0.548	0.965	1		
ROA Pub	-0.864	-0.738	0.682	0.572	1	
ROA Pvt	0.171	0.298	-0.607	-0.738	-0.08	1

Table 2:- Result of Cross Correlations

**Table 2.** The Result of Cross Correlation Private Sector, Public Sector Bank and Return on Assets. ROA is Taken as Dependent variable and GNPA and NNPA as Independent variable. It makes clear that there is a significant positive relationship between Gross NPA and Net NPA of public and private sector banks and also

negatively significant relationship between Gross and Net NPA with ROA of public & private sector banks at 5% significant level. It means when Gross and Net NPAs increases the ROA decreased. So, the null hypothesis namely “There is no significant Correlation between NPA and ROA of selected banks” is rejected.

Result of Multiple Regression for NPA and Profitability		
Variable	Model	Model
Dep. variable	ROA- Public	ROA- Private
Intercept	5689.622	7175
GNPA Beta	-0.11896	-0.00617
NNPA Beta	0.01133	0.02323
R Square	0.753907	0.561732

Table 3:- Result of Multiple Regression between Profitability and GNPA & NNPA.

**Table 3.** The result of regression for NPAs and Profitability of private and public sector bank. In this ROA taken as a dependent variable and NPAs as an independent variable for the study. It is found that the Gross Non-Performing Assets has negatively and Net Non-Performing Assets Has Positively influences the ROA. So, the null hypothesis namely “there is no significant impact of Non-Performing Assets on Profitability” is rejected.

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## VII. CONCLUSION

The objectives of the present study are to find the level of Gross & Net NPA and examine impact on profitability of both public and private sector banks. The study found that there is a significant positive relationship between Gross NPA and Net NPA of public and private sector banks and also negatively significant relationship between NPA with ROA of public & private sector banks. The impact of ownership (public and private sector banks) significantly influences the Gross and Net NPA. That is the NPA of public sector banks was higher than that of private sector banks. The impact of Gross NPA significantly influences the ROA negatively and also Net NPA positively influences the ROA of both public and private sector banks. The public sector banks are more defaulter than the Private sector banks. And also suffers more losses.

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