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NON PERFORMING ASSETS AND PROFITABILITY OF INDIAN BANKS: A REVIEW

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Abstract -The banking sector play a key role in financial performance and economic growth of the country and the banking sector in India faces many challenges and issues regarding the Non performing assets. NPA are considered as big problem in the present days. The objective of the study is to find the level of non-performing assets of banking sector in India and the impact of non-performing assets on profitability and financial performance of banks in India. This study identified that public sector banks have highly affected than private sector banks due to non performing assets in India and the increasing level of NPAs impact the profitability of the banks

Keywords: Non Performing Assets, Profitability, Banks, India, Economy,Financial

INTRODUCTION

Banking industry plays a major part in the development of economy of the country as it provides the needs for all the segments of the society. The banking sector provides strength for the country's financial system as it is involved in performing the functions such as liquidity and risk management. The economies of the world have established by making use of the credits availability. The country could have healthy economy based on the kind of banking system. The socio economic changes are being made in the country. Taking this as advantage Indian banks should come forward in the process of developing the nation. According to RBI norms, an asset will be declared as non performing, when its payment of interest or principal is due for more than 90 days. An asset is treated as performing when the expected income is recognised. Assets are considered as non performing if it fails to make income on due date. The continuous growth of NPA is deliberated as the main cause of entire banking industry (Pasha 2020);(Yadav and Thathera 2019). The Indian banking industry is currently dealing with a very large number of NPAs. To avoid these problems effective provisions must be taken on NPA. The rate of interest on deposits will be reduced by the banks due to rise in NPA and customers get affected. NPA creates a negative impact in cash reserve ratio and liquidity ratio which reduces the level of confidence of the shareholders. (Muthumeena 2019). The flow of credit and financial health of the banks are influenced by growth of NPA. The interest pay out terms of loans and advances are extended by ninety days. During this time that bank account will be labelled as out of order. If an individual takes loan for agricultural purposes then the payment terms will be pending for two harvest seasons. The progress of a nation in the banking sector is greatly affected by NPAs. Banks income and balance sheets are influenced by the banks failure to invest, which will lead to a reduction in inflation and help the economy grow. (Kapoor and Kumar 2019). The larger borrowers are not paying the interest and principal on due time, which results in the rise of NPA affecting the profitability of banks. These loans are converted into bad loans. For this problem the provisions should be implemented and strictly followed to increase the financial fitness of banks. The gross and net NPAs of commercial banks have increased, so that the earning capacity is decreased and Return on investment is affected badly. The research found that NPA kills the profitability of Indian banks and suggested that the banks should review existing credit appraisals and monitoring systems. The recovery system should be implemented among the members, and the one who recovers the highest amount must be rewarded. Loan recovery methods should also be strengthened and also RBI should take various steps for the management of NPAs because managing the NPAs plays an important role in strengthening the banking sector as well as economy of India. (Jha 2018)

LITERATURE REVIEW

To study in detail about the topic and made an effort to gather data from prior researches and related studies conducted in the area of impact of non performing assets and profitability in the banking regions. The review of literature has been presented in a summarized and precise manner.Bhardwaj and Chaudhary (2018) assessed the NPA of commercial banks in India and the impact of Non performing assets on banking industry. Then the author made suggestions to manage and avoid future NPAs in Banks. The data was analysed in time period of fourteen years from 2000 to 2014 by ratio analysis and percentage analysis. The result of this analysis showed that the gross and net NPAs of commercial banks have increased, so that the earning capacity is decreased and return on investment is affected badly. The research found that NPA kills the profitability of Indian banks and suggested that the banks should review existing credit appraisals and monitoring systems and loan recovery methods should be strengthened. Valliammal and Manivannan (2018) analysed the relationship between net NPA and profits. The author also evaluated the impact of non performing assets on the economic performance of banks. The data was analysed in time period of seven year from 2011 to 2017 by the correlation. The result of this analysis showed that impact of NPAs are strongly felt on the profitability. The research found that there is an inverse relationship between NPA's and Profits. So, the increase in NPA's leads to the decrease in net profits of Indian banks.Vikram and Gayathri (2018) examined the level of NPAs between public plus private banks in India. The data was analysed in time period of years from 2010 to 2017. The result of this analysis showed that the comparison level of NPA is more in public banking sector than in private banking sector. The rise in amount of NPA had negative effect on a bank's profits. The author said that managing the NPAs have an important role in strengthening the financial performance of banking sector as well as the economy. Jha (2018) evaluated that Non Performing assets between SBI (state bank of India) and ICICI bank and also compared NPAs between Public and Private sector banks. The data was analysed from 2011 to 2018 by using ratio analysis, percentage analysis and the t test. The result of this analysis showed that in SBI, there is substantial harmful correlation between Gross NPA and Net Profit and also in between Net NPA and Net Profit. This results clarified that the scale of NPAs is growing in SBI bank when compared to the ICICI bank. This paper also shown that NPAs are higher in Public banks as compared to Private banking sector. Panta (2018) evaluated that the banks macroeconomic elements of non performing loans and impacts of NPAs on profitability of banks. The analysis of data was done in time period from the year 2006 to 2017 and analysed by the Herfindahl-Hirschman Index. The determinants taken while analysing the result are interest margin and bank size of the non-performing assets and showed that the net interest has a substantial effect while the bank size had a negative and substantial relation. As the NPA increases, interest income reduces which result in decrease in the profitability of banks. Gulati (2018) assessed the impact of NPAs on profitability of various sectors of Indian banks. The data was analysed for very long time from 1998 to 2017 i.e. nearly twenty years. It has been statistically analysed by ratio analysis, percentage analysis, t test and technique of linear regression model has been used. The result of this analysis showed that the public sector banks have negative impact and Private sector banks has less impact of non performing assetss on profitability. The author stated that the uppermost impact of Non performing assets on profitability is there in case of public banks whereas private bank has less impact of Non performing assets on profitability.Dey (2018) analysed that the recovery mechanism of NPAs in India through Lok Adalat, DRTs and also evaluated the effectiveness of recovery process regarding Non Performing Assets. The data was analysed in time period from 2004 to 2017 by variance and Anova is used to find the difference between recovery channels. The result of this analysis showed that the recovery process is not effective in banking industry. The recovery process through DRTs is better than other recovery process such as Lok Adalat. The NPAs are increasingly continuously but the recovery process not at the required rate. The researcher stated that the recovery process is not sufficient to control this situation. Kumar et al (2018) evaluated the causes for rise in NPAs and evaluated impacts of NPAs on bank's profitability to have an effective control by the banks. The data is analysed by a sample size of around 429 respondents and evaluated by arithmetic mean and percentages. The result of this analysis showed that the causes are Ineffective recovery tribunal, Industrial Sickness, then the Change of government Policies, then Poor credit assessment system and Managerial deficiencies. The author found that Non performing assets are exhausting the wealth of the banks and effecting their financial power. Nonperforming assets have continuously creating a problem for the Indian banks. It had an effect on profitability of Indian banking sector, so make sure that recovery of loans should be done effectively. Chaitra and Vasu (2018) assessed the trends of NPAs of public and private sector banks and also compared the NPAs of public and private sectors banks. The data was analysed by taking sample units of top five public sector banks and top five private sector banks by using ratio analysis, percentage analysis and t-test. The result of this analysis showed that trend of NPAs are in downward position according to the research period, but Non Performing Assets of public banking sector are higher than private banking sector. The earnings on the resources have also the descending trends but it is lower in public sector banks as compared to the private banks. The author found that Gross NPAs was higher in public sector bank compared to private sector banks.Kumari (2018) analysed the effect of NPAs on profitability and financial performance of banks in India. The data was analysed from 2011 to 2016 and also by taking sample size of 50 respondents. The result of this analysis showed that growth in NPA has affected the profitability and operational functions of public sector banks in India. When interest on loan amount is not paid by the borrower then the banks have to suffer losses. The banks should go for provisioning on bad loans which decreases the profits of banks. The researcher found the increasing NPA has affected the efficiency of banks such as credit growth has been affected. Joseph (2018) assessed that the effects of Non Performing Assets on the profitability and efficiency of commercial banks. The data was analysed in time period from 2005 to 2015 by percentage and regression analysis. The results of this analysis showed that the profitability of banks reduces while rising in NPAs. The author found that the amount of gross and net NPAs are in an increasing trend and also NPAs are effecting the net profit of banking sector in India and GDP of our economy.Mishra and Sahoo (2018) evaluated the financial performance of SBI and measured the impacted profitability of SBI by NPAs in India. The data was analysed during the period from 2005 to 2017 by using the techniques such as correlation, regression and Anova. The results of this analysis showed the amount of NPA has increased and profits of SBI have decreased. It is found that growth in net NPA of SBI do not have larger impact on its profits. Despite having losses, SBI manages to maintain its profitability, liquidity because it is having other sources of income. The author found that NPAs have affected the credit and reduced the capital, so that it is effecting the economy of the country. The level of NPAs have huge growth that effects the profitability and performance of the banks.Vijai (2018) assessed the impact of NPA on Indian banks and evaluated the reasons for loans converted to Non-performing assets. The results of this analysis showed that profitability of the banks was affected by NPA .The amount of increase in NPA decreases the capital and revenue of the banks. The author found the reasons for increase in NPA are Poor credit appraisal, Defective lending process and Lack of trained staff and Lack of commitment to recovery. The banks should improve the provisions and recovery methods and should be implemented strictly. Lovejoy (2018) analysed the trend and relationship between NPAs and total assets of banks. The author suggested the measures to reduce NPA in banking sector. The data was analysed in the time period of eleven years from 2008 to 2018 by correlation and t test. The result of this analysis showed that most of the banks are significant and positive relation between NPA and total assets of banks. RBL is the only bank with a negative correlation between total assets of the banks and net NPA. From this study the author explained that decrease in NPA lead to increase in assets. The researcher found that banks should highlight more and make efforts to prevent amount of increase in NPA. The recovery system should be implemented among the members, and the one who recovers the highest amount must be rewarded. The recovery process seems to be very slow. The government needs to update the provisions for recovery process and should be followed to decrease NPA.Pasha and Srivenkataramana (2018) evaluated the effects of NPAs on banking sector, and made some suggestions for NPA management in banking sector. The data was analysed in time period of 5 years from 2008 to 2013 by ratio analysis, percentage analysis. The result of this analysis showed that the NPAs creates a big problem to the banking industry in India. More attention should be taken in case of NPAs, Due to this NPAs the loans are converted to bad loans and the economy of the country gets effected and the profitability of the banks gets killed.. The author found that for better management of NPAs, the banks should implement and follow some measures like developing a reliable and updated information system and employing a tested credit risk evaluation system and monitoring the loans continuously for the prevention of NPAs.Banerjee et al (2018) analysed that the trend of NPA in public sector and private sector commercial banks. The author evaluated the impact of NPAs and reasons behind increase in NPA .The data is analysed in time period 0f 9 years from 2009 to 2017 by average and standard deviation of all variables. The result of this analysis showed that the profitability and performance of the banks and return on investment of the banks are affected by rising in NPAs. Some of the reasons for increasing in NPAs are poor credit management policies and most of the loans are sanctioned for agricultural purposes and loans are sanctioned without enquiry. So to prevent increase in NPAs the banks should focus on increasing recovery policies and implementing the same policies. Yadav and Thathera (2019) in their study entitled "Effect of NPAs on the profitability of banks-A selective study". It has been made on Indian public banks to assess the effect of NPAs off the profitability of Indian banks. The result reveals that all other banks show a negative link between their gross NPAs and net income, except for SBI. The research on NPAs was conducted by Laha et al (2019) indicated that banks should concentrate on strengthening policies for credit recovery. They also stated that the emphasis is on enhancing the formulation of strategies and even deployment. Banks can also make attempts to provide creditworthy clients with advances by evaluating their risk-bearing capability. The government must try to implement stringent provisions for the clearance or pruning of NPAs as the survival of NPAs ruin the profitability, and competitiveness of the banks and it also effects the financial health of the overall banking industry of India. Kapoor and Kumar (2019) assessed that the NPA is the biggest danger to India's banks. In their research paper addressing the beneficial influence of priority sector loans on NPAs, non-performing assets must be better handled for the stable climate of Indian banks. Most of the reasons for the steady growth in the NPAs was the contraction. Bhatia (2019) assessed to judge the impact of Non performing assets of the private banks of India on their profitability. The NPA data from 2001 to 2016 was collected for the study. The financial performance of the banks was analyzed by using financial ratios. The study concluded a negative relationship between NPAs and ROA. Sharma et al (2019) measured the effect on profitability of the Punjab National Bank's Non Performing Assets and also analyzed the relationship between overall Advances, Net Income, Gross and Net NPA. The data for the analysis is from 2006-2007 to 2011-2012. It was noted here that the fall of the NPA was necessary to increase the bank's profitability. They concluded that a beneficial association exists between Net Benefit and PNB's NPA. The benefit is being pushed on the one hand, due to improved developments, whereas on the side, since weak follow-up NPAs are also rising.Singh (2018), analyzed the relationship between the chosen four banks' Gross NPA and Net Profit, i.e. via correlation, State Bank of India, Nationalized Bank, Private Bank, and International Banks. The consequence of the analysis indicates that the harmful link between NPA and net Profit for all the banks. The researcher concluded that NPA damaging the performance of financial institutions both financially and psychologically, especially Public sector banks must focus on their NPA management to improve their profitability.Arasu et al (2019) studied the reasons of NPA and the influence of NPA on the bank's profitability. The analysis found that there was a modest correlation between the syndicate bank's Gross NPA and Net Profit and also found that there was no major gap with the sector-wise NPA. In her paper, Priyanka et al (2019) entitled credit management and the problem of NPAs in Public Sector Banks specified that there is an serious need for understanding of the impacts of Non performig assets on profitability. In order for creating greater understanding and reciprocal confidence, banks should have daily meetings and meet with borrowers.Muthumeena (2019) analysed that the Non Performing Assets of nationalized banks have analyzed how the NPAs have an impact on the profitability of the banks. It also puts pressure on the bank's net worth. The author found that there is a significant change in the level of NPAs of national banks depending upon how they manage the non-performing assets effectively.In their research, Nachimuthu and Veni (2019) claimed that Indian bank, regardless of profits, liquidness, and competitive working, the NPA has a severe influence on the mind-set of bankers related to the availability of funds for the provision of credit and the expansion of credit.

CONCLUSION

One of the major problem for banking sector in India is Non performing assets. Npa had shown an impact on the Indian economy. This study found that the public sector banks have highly effected than private sector banks due to NPAs. The increasing level of NPAs impacted the profitability of the banks and also the economy of the country. The factors in increasing the NPA are poor credit management policies, intentional loan defaults, loans sanctioned without enquiry for agricultural purposes. One of the reasons for increase in NPA is the aggressive credit policy of giving high amount of loans. The recovery measures taken by government and banks are not effective in solving the problem in bad debts. The banks and government should take proactive measures in recovery process. The strict policies should be implemented for the large borrowers than the small borrowers for solving this problem. Banks should identify and monitor the accounts of the loans continuously that has the possibility in becoming Non performing. This problem of NPA must be taken seriously or else this problem will badly effect the profitability of banks. Thus leading to the decrease in the growth of economy in the country. The financial institutions and banks must adopt structured and real world policies in prevention of Non-performing assets.

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