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Growth of Non-Performing Assets on the Profitability of Banks in India

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Abstract

One of the big problems for banks in India is non-performing assets. NPAs reflect banks' results. From 2006-07 to 2019-20, the current paper explores the pattern and growth of the net profit of all banks and gross non-performing assets in India.

The study has the following objectives

1. To analyse the growth of net profit of all the banks in Indiasince 2006-07 to 2019-20.
2. To identify the Gross Non-performing asset (NPA) and profitability of banks and
3. To examine thetrend and growth of net profit of all the banks and gross non-performing assets in Indiasince 2006-07 to 2019-20.

It is mainly concerned with tapping specific secondary data collection sources. It gathers secondary data from academic papers, dissertations of academics, reference books, standard publications and records of institutes and organisations, journals, newspapers, internet, etc. Statistical instruments such as percentage techniques, linear pattern and compound growth rate have been used.

It is found that the trend coefficient was found to be statistically significant for net profit of all the banks and Gross Non-performing assetin India. It indicates, on average, it had increased by 6.7 percent for net profit of all the banks and 4.1 percent for Gross Non-performing assetper annum. The growth rates are found to be 7.384 percent, and 4.957 percent for net profit of all the banks and Gross Non-performing assetin India.The value of R2 indicates that the net profit of all the banks (0.613), and Gross Non performing asset (0.571) explain variations independent variables to the extent of 61 percent, and 57 percent respectively. Therefore, the banking sector should now primarily concentrate on the efficient management of NPAs in order to improve their profitability and thereby provide the industry with as much funding as possible.

Keywords: Economic growth; Financial institutions; Allocation of resources; Net profit; Non-performing assets.

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Introduction

The main goal of each country is to achieve stable economic growth that revolves around the financial stability of the economy. Banking and financial institutions play a key role in the growth of the economy, especially in resource mobilisation and allocation. The primary word for banking companies is nonperforming assets. Non-Performing Assets reflect the efficacy of the banks' results.

In order to enhance their lending conduct, the commercial bank should aim to build more deposits in others and should implement the most easily realisable policies and effective credit management in all circumstances (Olusanya, et al 2012).[1] Banks in rural regions could also set up branches that could increase their profitability (Jain and Sheikh 2012).[2] There is a positive correlation between recovery and loans disbursed and loans outstanding. So, the recovery position of the bank is better as loan outstanding increases recovery of over dues also increases (Rajni and Dhaliwal 2013).[3]

SBI and HDFC Bank's demand deposit volumes are almost close, but the amount of savings and term deposits vary substantially and SBI's loans and advances, term advances, and short-term loans are larger than HDFC Bank as SBI has a larger network and customer base (Bara 2013).[4] There is a need for bank management to formulate new approaches to increase customer deposits because of the positive and critical relationship between deposit volume and loan and advancement (John 2014).[5]

Taking less risk leads banks to reduce their lines of credit and thus to show a slower gross advance growth rate (Cucinelli 2015).[6] The further deposits should be mobilised to lend more, which in turn brings more revenue to the bank, as a positive relationship between the deposit and the bank's loans (advances). The bank could open more branches in these reports so that by covering more customer members, it could mobilise more deposits (Selvaraj and Kumar 2015).[7]

SBI is one of India's leading banks in the public sector. SBI's market place is higher. Deposits, deposits, advances, borrowing and net profit are increasing evidence of the SBI group's concern about the banking system 's decreasing profitability due to unsecured loans and advances. It has become daunting and considers remedial steps to minimise the importance of new banking philosophy 's profitability (Nayana and Veena 2018).[8] The present paper examines thetrend and growth of net profit of all the banks and gross non-performing assets in Indiasince 2006-07 to 2019-20.

Objectives

The study has the following objectives

1. To analyse the growth of net profit of all the banks in Indiasince 2006-07 to 2019-20.
2. To identify the Gross Non-performing asset (NPA) and profitability of banks and
3. To examine thetrend and growth of net profit of all the banks and gross non-performing assets in Indiasince 2006-07 to 2019-20.

Methodology

It is mainly concerned with the tapping of specific secondary data collection sources. Secondary data from academic papers, dissertations of authors, reference books, regular publications and studies are obtained from institutes and associations, journals, newspapers, internet, etc. Statistical instruments have been used, such as percentage approaches, longitudinal patterns and compound growth rates.

Review of Literature

Narula and Singla (2014)[9], evaluated the effect on profitability of the Punjab National Bank's Non-Performing Assets and also evaluated the relationship between total Advances, Net Income, Gross and Net NPA. The data for the analysis is from 2006-2007 to 2011-2012. It was observed here that the decline of the NPA was necessary to boost the bank's profitability. They concluded that a positive relationship exists between Net Profit and PNB's NPA. Benefit is being forced on one side due to increased developments, while on the other side due to weak follow-up NPAs are also rising.

The comparative position of Gross Non-performing Assets (NPA) and Net Non-performing Assets (NPA) in various Indian public sector banks, private sector banks and foreign banks was studied by Singla (2015).[10] He concluded that the growth in private sector banks' gross and net NPAs was lower compared to public sector banks and international banks operating in the private sectorin India.

By considering Gross NPA and Net profit of banks, Kiran and Jones (2016)[11] have provided the impact of Non-performing Asset (NPA) on bank profitability. But, every year, the previous year's Total NPA involves NPA and recovery of bad loans. Therefore, the technique they have used in which "Lag" was there, the year wise difference of NPA should be considered by excluding the Lag effect from the results.

Miyan (2017)[12] carried out a comparative statistical approach of public sector banks and private sector banks in India to non-performing assets (NPA). Researchers concluded that over the span of study, NPAs have a downward trend, but PSBs' NPA is still higher than private sector banks. Thus, as compared to private sector banks, the performance of PSU banks was low.

Singh (2018)[13] analysed the relationship of the selected four banks between Gross Non-performing Asset (NPA) and Net Profit, i.e. By correlation, the State Bank of India, Nationalized Bank, Private Bank and International Banks. The result of the research indicates that there was a negative correlation between Gross NPA and Net Profit for all the banks. Researcher concluded that NPA must concentrate on their NPA to harm the financial institution 's output both financially and psychologically, especially public sector banksmust focus on their NPA management to improve their profitability.

The Non-performing asset (NPA) management of public and private sector banks was evaluated by Sharma, Rathore and Prasad (2019).[14] They suggested that close monitoring of NPAs in all categories of financial institutions is important and that further slippage of accounts in the NPA group should also be reviewed.

Result and Discussion

Table 1: provides net profit of all the banks from 2006 to 2019.

Table 1: Net Profit of Banks (Rs. in Crore).

Year	SBI	United Bank of India	Dhan Laxmi Bank	Central Bank of India	Punjab and Sind Bank	Punjab National Bank	Indian Overseas Bank	IDBI Bank	Bank of Baroda	ICICI Bank	Axis Bank	Total
2006	4,406.67	-73.87	9.52	257.42	284.58	1,439.31	783.34	560.88	826.95	2,540.07	485.08	11,519.95
2007	4,541.31	267.28	16.14	498.01	390.27	1,540.08	1,008.43	630.94	1,026.46	3,110.22	659.02	13,688.16
2008	6,729.12	318.95	32.48	550.16	389.57	2,048.76	1,202.34	729.45	1,435.52	4,157.73	1,071.03	18,665.11
2009	9,121.23	184.71	57.45	571.24	434.41	3,090.88	1,325.79	1,031.13	2,227.20	3,758.13	1,815.36	23,617.53
2010	9,166.05	322.36	23.3	1,058.23	508.8	3,905.36	706.96	858.53	3,058.33	4,024.98	2,514.53	26,147.43
2011	7,370.35	523.97	26.06	1,252.41	526.17	4,433.50	1,072.54	1,650.32	4,241.68	5,151.38	3,388.49	29,636.87
2012	11,707.29	632.53	-115.63	533.04	451.29	4,884.20	1,050.13	2,031.61	5,006.96	6,465.26	4,242.21	36,888.89
2013	14,104.98	391.9	2.62	1,014.96	339.22	4,747.67	567.23	1,882.08	4,480.72	8,325.47	5,179.43	41,036.28
2014	10,891.17	-1,213.44	-251.91	-1,262.84	300.6	3343	601.74	1,121.40	4,541.08	9,810.48	6,217.67	34,098.95
2015	13,101.57	255.94	-241.47	606.45	121.35	3,061.58	-454.33	873.39	3,398.44	11,175.35	7,357.82	39,256.09
2016	9,950.65	-281.96	-209.45	-1,418.19	335.97	-3,974.40	-2,897.33	-3,664.80	-5,395.54	9,726.29	8,223.66	10,394.90
2017	10,484.10	219.51	12.38	-2,439.10	201.08	1,324.80	-3,416.74	-5,158.14	1,383.14	9,801.09	3,679.28	16,091.40
2018	-6,547.45	-1,454.44	-24.87	-5,104.91	-743.80	-12,282.82	-6,299.49	-8,237.92	-2,431.81	6,777.42	275.68	-36,074.41
2019	862.23	-2,315.92	11.67	-5,641.48	-543.48	-9,975.49	-3,737.88	-15,116.30	433.52	3,363.30	4,676.61	-27,983.22
Total	105,889.27	-2222.48	-651.71	-9524.6	2996.03	7,586.43	-8487.27	-20807.43	24232.65	88,187.17	49785.87	236,983.93
Mean (X)	7563.52	-158.75	-46.55	-680.33	214.00	541.89	-606.23	-437.78	1730.90	6299.08	3556.13	16927.42
Standard Deviation (S.D)	5440.49	874.27	109.37	2257.90	381.71	5433.97	2434.61	3173.69	2890.35	2973.33	2581.05	23166.14

Source: www.moneycontrol.com

From the Table 1 and Table 2, the Net profit and Gross Non-performing asset (NPA) is plotted on the graphs for all the banks. From the table, the trend of Gross NPA and Net Profit of banks from 2006 to 2019 is shown. From the Table 1 and Table 2, it is observed that in some banks the gross Non-performing asset (NPA) affect very much on Net Profit of the banks from 2006 to 2019 such as United Bank of India, Dhanlaxmi Bank, Central Bank of India, Punjab National Bank, Indian Overseas Bank, IDBI Bank. Whereas, if we see the impact of Gross NPA on Net Profit of banks from 2012 to 2019, then it is found that amongst the above banks, SBI, Punjab & Sind Bank, Bank of Baroda, ICICI Bank and Axis Bank increase in NPAs highly affected the Net Profit of the banks.

A remarkable difference in the financial status of the banks was observed in the year 2016. All the banks except SBI and PNB went through a severe loss in the year. The loss percent of the banks-BOI, BOB, IOB, CBI and UBI in the year 2016 as compared to 2015 were 462.32, 258.77, 537.71, 284.30, and 210.14 respectively. Among the banks, only SBI and PNB could achieve profit consistently in all the years.

It is also inferred from Table 1 that the growth of net profit of SBI bank in India from 2006 to 2019, on an average over a period was found to be higher to the growth of net profit of Dhan Laxmi Bank in India from 2006 to 2019. The average amount of growth of net profit of SBI bank in India was 7563.52, and the average growth of net profit of Dhan Laxmi Bank was negative amount with -46.55 in India from 2006 to 2019.

Table 2 provides Gross Non-performing asset (NPA) of all the banks from 2006 to 2019.

Table 2: Gross Non-Performing Asset (NPA) (Rs. in Crore).

Year	SBI	United Bank of India	Dhan Laxmi Bank	Central Bank of India	Punjab and Sind Bank	Punjab National Bank	Indian Overseas Bank	IDBI Bank	Bank of Baroda	ICICI Bank	Axis Bank	Total
2006	10375.8	726.4	111.4	2684.2	941.50	3,138.29	1,227.6	1,115.52	2,390.14	2,770.43	311.10	25792.38
2007	9998	744.3	96.29	2572	290.84	3,390.72	1120	1,231.86	2,092.14	2,222.59	377.95	24136.69
2008	12,837.34	817	63.21	2350	135.53	3,319.30	996.95	1,564.68	1,981.38	4,126.06	418.67	28,610.12
2009	15,588.60	761	64.4	2316.5	161.04	2,767.5	1923.41	1,435.68	1,842.92	7,579.54	494.61	34,935.20
2010	19,534.89	1,019.6	77.5	2457.9	206.2	3,214.41	3611.08	2,129.38	2,400.69	9649.54	897.77	45,198.96
2011	25,326.29	1355.78	67.09	2,394.53	424.28	4,379.39	3,089.59	2,784.73	3,152.50	10,034.26	159.94	53,168.38
2012	39,676.46	2,176.42,	104.27	7,273.46	763.44	8,719.62	3,920.07	4,551.37	4,464.75	9,475.33	1,806.30	80,755.07
2013	51,189.39	2,963.82	380.27	8,456.18	1,536.90	13,465.79	6,607.96	6,449.98	7,982.58	9,607.75	2,393.42	111,034.04
2014	61,605.35	7,118.01	485.82	11,500.01	2,553.52	18,880.06	9,020.48	9,960.16	11,875.90	10,505.84	3,146.41	146,651.56
2015	56,725.34	6,552.91	558.29	11,873.06	3,082.19	25,694.86	14,922.45	12,684.97	16,261.45	15,094.69	4,110.19	167,560.40
2016	98,172.80	9,471.01	458.92	22,720.00	4,229.05	55,818.33	30,048.63	24,875.70	40,521.04	26,720.93	6,087.51	319,123.92
2017	112,342.99	10,951.99	315.60	27,251.33	6,297.59	55,370.45	35,098.25	44,752.59	42,718.70	42,551.54	21,280.56	398,931.59
2018	223,427.46	16,552.11	469.31	38,130.70	7,801.65	86,620.05	38,180.15	55,588.26	54,480.39	54,062.51	34,248.64	609,561.23
2019	172,750.36	12,053.38	495.84	32,356.04	8,605.87	78,472.70	33,398.12	50,027.94	48,232.77	46,291.63	29,789.44	512,474.09
Total	909551.07	71087.31	3748.21	174335.91	37029.6	363,251.47	183,164.74	219,152.82	240,397.35	250,692.64	105,522.51	2,557,933.63
Mean (X)	64967.93	5468.25	267.73	12452.57	2644.97	25946.53	13083.19	15653.78	17171.24	17906.62	7537.32	182709.55
Standard Deviation (S.D)	65501.45	5383.43	199.29	12474.22	2970.78	30078.14	14424.09	19856.92	19914.58	17325.96	11741.51	196979.49

Source: www.moneycontrol.com

From the Table 2, NPA of the banks went on increasing in all the years but a drastic raise was observed in the year 2016. The percentage raise of NPA of the banks in the year 2016 as compared to 2015 were SBI – 73.07, BOI- 124.75, UBI- 44.53, BOB-149.18, IOB-101.37, PNB- 117 and CBI- 91.36.The Gross NPAs have been continuously increasing for all the banks for the specified period. As the business operations of banks have been increasing the amount of NPAs have also increased.

It is also inferred from Table 2 that the growth of Gross Non performing assetof SBI bank in India from 2006 to 2019, on an average over a period was found to be higher to the growth of Gross Non performing asset of DhanlaxmiBank in India from 2006 to 2019. The average amount of growth of Gross Non performing asset of SBI bank in India was 64967.93, and the average growth of Gross Non performing asset of DhanlaxmiBank was negative amount with 267.73 in India from 2006 to 2019.

The trend and growth of net profit of all the banks and Gross Non-performing assetsince 2006-07 to 2019-20in Indiain are shown in Table 3.

Table 3: Trend and Growth of net Profit of all the Banks and Gross Non-performing Assetsin India.

Particulars	Trend Coefficient		R^2	Compound Growth Rate in Percent
	a	b		
Net profit of banks	8.374	0.067*(6.071)	0.613	7.384
Gross Non-performing asset	6.925	0.041*(5.806)	0.571	4.957

Figures in brackets represent 't' values

*Significant at 5 percent level.

It is found from Table 3 that the trend coefficient was found to be statistically significant for net profit of all the banks and Gross Non-performing assetin India. It indicates, on average, it had increased by 6.7 percent for net profit of all the banksand 4.1 percent for Gross Non-performing assetper annum. The growth rates are found to be 7.384 percent, and 4.957 percent for net profit of all the banks and Gross Non-performing assetin India.

The value of R^2 indicates that the net profit of all the banks (0.613), and Gross Nonperforming asset (0.571) explain variations independent variables to the extent of 61percent, and 57percentrespectively.

Conclusion

Any country's economic growth depends upon the proper functioning of the country's financial system. The financial system consists chiefly of the banking sector. Our government is now concentrating for a few days on improving our economy, which needs tremendous financial capital. Thus, India's GDP can only increase if the requisite funds are invested in the economy, giving rise to faster economic growth.

The third measure of stability in the banking system is profitability. Due to the rise in NPAs and the decline in return on assets, there is a dramatic decrease in the profitability of scheduled commercial banks in the later stage of the study period. Liquidity, which is adequate except for the slight adjustment in 2016 due to demonetization, is the fourth stability parameter. Performance, calculated by various means such as staff expenses, company per employee and cost, is the last pillar of checking stability.

Performance, calculated by different means such as personnel costs, company per employee and cost to profits, is the last pillar of checking stability. In order to perform better, overall performance is adequate but requires improvement. Thus, the banking sector should now concentrate primarily on the successful management of NPAs in order to improve their profitability and thus provide the industry with as much funding as possible. New methods for enhancing the recovery of loans should be built by organisations.

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