A Comparative Study on Impact of Non-Performing Assets of Public and Private Banks on its Profitability

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Abstract

In spite of various correctional steps taken and implemented by RBI and Finance Ministry to solve and end this problem of surging and soaring NPAs in Banks, concrete results are still not visible. The severity of the problem is greatly affecting almost all types of banks.

Non- performing asset of Urban as well as Rural bank are one of the biggest hurdle in the plan and program of rural development. It severely affects the financial health of the banks. So the banks should take proper remedial steps for recovering the overdue by way of strengthen the internal management control system.

NPA impact the performance and profitability of banks. The most notable impact of NPA is change in bankers' sentiments which may hinder credit expansion to productive purpose. Banks may incline towards more risk free investments to avoid and reduce riskiness, which is not conducive for the growth of economy.

Keyword: Rural Development ,Financial health, NPA, Economy.

Introduction

The banking industry in India is strong backbone to Indian Economy. India's banking sector is on a high-growth trajectory with around 10 ATMs and less than seven bank branches per 100,000 people, according to a World Bank report. Another report prepared by KPMG prepared in association with the Confederation of Indian Industry (CII) states that the Indian banking sector is expected to become fifth largest in the world by 2020. The report highlights that India is one of the top 10 economies of the world and with relatively lower domestic credit to gross domestic product (GDP) percentage, their lies a huge scope of growth for the banking.

The Indian Banking System has passed through three distinct phases in the last three decades.
While Seventies witnessed the banking transformation from Class Banking to Mass Banking, 1980s was the period of consolidation and Nineties the era of financial sector reforms. The macro-economic crises faced by the country in 1991 paved the way for extensive financial sector reforms.

In view of several developments, the entire banking products structure has undergone a major change. As part of the economic reforms, banking industry has been deregulated and made competitive. New players have added to the competition. IT revolution has made it possible to provide ease and flexibility in operations to customers

The banking sector in India has witnessed a sea change over the past several decades due to changes in Economic Policy and Reforms in Financial Sector. The landmarks and proven milestones in banking reforms were the implementation of prudential norms, partial deregulation of interest rates, reduction in directed lending and the entry of private sector banks.

Banking reforms by the Government of India and Reserve Bank of India (RBI) in the form of the two Narasimhan Committee Reports have been are the sincere and healthy efforts to neutralize the ill effects of threat caused by NPA to Banking System in India. Narasimham Committee that mandated identification and reduction of NPAs to be treated as a national priority because NPA direct toward credit risk that bank faces and its efficiency in allocating resources. Better credit monitoring and credit recovery systems are extremely important and to be efficiently employed by the banks to control the bubble of NPAs in the Balance Sheets.

Review of literature
Desai Maulesh (1992): The huge burden of NPA is breaking the back bone of the banking sector. Credit monitoring and recovery are the methods applied for NPA management. The research study recommends various issues relating to NPA exclusively in the Gujarat Zone. Author provides insight into warning signal emitted before the credit becomes NPA. Aspects relating increase in bills receivable without changing business propositions affects the profitability. The author has highlighted in order to avoid NPA the bankers should be careful keeping in mind the warning signals which can avoid the disastrous situations or alarming contingencies.
M.V. Narayanaswmy, K.ArunaRao and Srimathi .S.Mayya (2007) made an attempt to construct a scale for measuring the performance of Primary Agricultural Credit Societies (PACSs) and establish the robustness of scaling techniques and the scale itself. An attempt is made to evaluate the performance of co-operatives by using the tools developed for the sector which does not seems to be appropriate. Corporate is an 'outward looking' entity whereas is an inward looking entity the scaling technique developed in this paper is both simple and robust and address the problem of non normal data.

Research Methodology
Methodology can be considered as the backbone of any project work. "Methodology refers to the scientific methods used in the project for the purpose of investigation and research".

Objectives of Study
100To study the profitability of Public sector banks and Private sector banks.
101To determine the Non-performing Assets of Public sector banks and Private sector banks.

Research Design
The research design that will be use is Descriptive Research.
[35]   Involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data.
[36]   Using of hypothesis testing.

Hypothesis
H0: There is insignificant relationship between profits & NPAs of Public Sector Banks for last 5 years
H1: There is significant relationship between profits & NPAs of Public Sector Banks for last 5 years

Sample Size

In the study following banks are considered for research:
Public Banks: Allahabad Bank, Bank of Baroda
Private Banks: Axis Bank, Citi Union Bank

Data analysis

[21]   The secondary data collected is analyzed using various statistical tools and techniques such as one-way ANOVA and multiple regression analysis used as a statistical tool.

[22]   The technique is used to identify if there exist a significant difference in the performance of banks and financial institutions and the impact of NPA on their Profitability.

To test the hypothesis i.e. "There is no significant relationship between level of NPA's and Profitability of Banks" One Way ANOVA test is applied using SPSS tool provides an ANOVA table, the 6th column of Sig. provides the p. value which depends on the F value of the 5th column. We can set the following rules at 5% level of significance:

If p value > 0.05, then the model is non-significant model and support the statement of the null hypothesis

If p value ≤0.05, then the model is significant model to determine the statement of alternative hypothesis. This means that t*here is a significant relationship between level of NPA's and Profitability of Banks*. Hence they support the fact under alternative hypothesis.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763[a]	.581	.580	6.53481

a. Predictors: (Constant), NPA to Loan Advances Ratio

From the above table the R square value is .763 and adjusted R square value is 0.581 and thisenlighten us that the model account for 58.1% of variance in the present study.This is the clear indication that this model is a semi strong model.Also the R value is 0.763 which states that there is **strong relationship** between change in NPA to loans and advances ratio and Profitability of Banks. This proves that NPA affects the profitability of banks.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23610.610	1	23610.610	552.893	.000[b]
	Residual	16996.089	398	42.704		
	Total	40606.699	399			

a. Dependent Variable: Net Profit Margin
b. Predictors: (Constant), NPA to Loan Advances Ratio

The above table shows the F value of 552.893 and sig. value (p value) of 0.00 calculated from the difference between the mean values. Since the p value calculated above is less than the alpha value of 0.05, it is concluded that there is significant relationship between level of NPA's and Profitability of Banks. Hence on the basis of means and ANOVA calculated it is concluded that the hypothesis i.e. There is no significant relationship between level of NPA's and Profitability of Banks is **rejected**and alternate hypotheses i.e. there is significant relationship between level of NPA's and Profitability of Banks is **accepted**.

Conclusion

The most threatening issue faced by banking sector in the current scenario is Non Performing Assets (NPAs). However, the level of NPAs can be reduced through an efficient monetary mechanism and also by applying various controlling measures. The liquidity, profitability, overall quality of the assets and the successful survival of the banks is directly affected due to NPAs. There is harmful effect on the profitability of the banks due to huge rates on NPAs in both public and private banks.

Increase in the level of NPA has led to reduction in income from interest, erosion of the capital base and also reduction in its competitiveness, decrease in profits as well as reduction in reserves and provisions that come from profits. Since all these factors act as a cushion for loan losses. Hence, management of NPAs has a vital role in strengthening of Indian Banking sector as well as Indian Economy.

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