

A Study on Non-performing Assets, Its Trends and Patterns in Indian Banks and its Impact on Performance of the Banks

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Abstract: The Non-performing assets in banking industry are alarmingly increasing which is causing damage to the leverage of savings-credit chain. It is also causing high losses to the banks and performance of the banks is declining. The objective of this study is to analyze the trends and pattern of NPAs in Indian banks and also to measure the impact of NPAs on the performance of Indian banks. For this the study has considered few variables like Gross NPA , Net NPA, of Public , private and foreign sector banks to find out NPA trends in Indian banks using one-way ANOVA test, Post-hoc Duncan test and Exponential growth model and ROA, ROE, and ROI to make a comparative analysis between Public, private and foreign sector banks over the presence of NPA.

INTRODUCTION

Banks in India play a key role in development of the country. As a traditional role of banks suggest, banks lend and borrow funds meaning, the funds flow from excess or surplus to the scarce part of economic activities. There are few factors that are causing inefficiency in the working of the banks.

- Losses in Rural Branches caused by the less awareness in the rural areas regarding the banking operations and less literacy levels in general and also regarding the banking habits.
- Large Over-Dues from the farmers loan waivers and also small businesses
- Competition from Non-Banking Financial Institution which is not supervised by the RBI but does the banking operations. The Monetary policy related to rate of interest and inflation control is by RBI is not

applicable for the NBFIs which leads to inefficient control of business cycle by the Monetary policy by the RBI.

- Competition with Foreign Banks especially in the case of deposits and they are providing higher interest rates compared to the public sector and the private sector banks in India. They are also on the better side in the case of services and customized loans and bancassurance services. Customer priority is kept at the higher hand.
- Bureaucratization and Political Pressures which is the cause and consequence of the Red-tapism are causing the banks to take inefficient decisions and causing the failures in management and also cause losses in the businesses. The political pressure referring to the loans lent to the political parties besides their poor credit worthiness
- **Non-Performing Assets** causing banks lose its goodwill in the banking business and also causing the damage to the leverage of savings-credit chain. It is also causing high losses to the banks and performance of the banks are also declining

In this study, we are going to analyze one of the problems of the banks that are increasing NPA in Indian banks.

OBJECTIVES OF THE STUDY

The following are the objectives of the study.

1. To analyze the trends and pattern of NPAs in Indian banks.
2. To measure the impact of NPAs on the performance of Indian banks

HYPOTHESES OF THE STUDY

The following are the hypotheses formulated for the purpose of study.

1. There is an increase in the volume of NPA in Indian banks.
2. NPA has a significant influence on banking performance

METHODOLOGY OF STUDY

The study has made use of secondary data compiled from sources published on RBI website, statistics tables related to Indian banks.

- a) For the first objective, the study uses data of Gross NPA and Net NPA from the year 2000-01 to 2016-17 years, that is analyzing the level of NPAs in the banks in three different sectors i.e., Public Sector Banks, Private Sector Banks and Foreign Sector Banks
- b) For the second objective, that is to measure the impact of NPAs on the performance of Indian banks a comparative analysis is made

by choosing one bank from each sector of the banks on the basis of ROA, ROE and ROI. The data of is compiled from 2005 to 2018.

The tools used for the analyses are One-way ANOVA, Linear Regression and Tables and Graphs. The study has also utilized the exponential growth models to analyze the growth of NPA among the sectors.

ANALYSIS AND FINDINGS

Some of the findings from the study are given below

- A. For the objective of analyzing the trends of NPAs in Indian banks, the study conducted showed us that the NPAs are increasing in the public sector banks and averagely in the private sector. The least affected by the NPA is the foreign sector banks.

Table 1: Model Summary and Parameter Estimates of Gross Non-Performing Assets

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Public sector banks	.692	33.735	1	15	.000	229.145	.154
Private sector banks	.861	93.286	1	15	.000	59.768	.125
Foreign sector banks	.801	60.277	1	15	.000	16.684	.122

The study was conducted using the exponential growth model showed us that the Gross NPA is increasing at the pace of 15.4% in the public sector, average annual growth rate of GNPA in private sector banks is 12.5% and the average annual growth rate of GNPA in foreign sector banks is 12.2%. The average annual growth rate in the foreign sector banks is the least compared to the other two sectors as their profitability is a key factor of their businesses

- The descriptive statistics of gross non-performance is given in the table below. The results reveal that the mean GNPA of public sector banks is 1510.24 billion, average GNPA of private sector banks is 237.31 billion and mean GNPA of foreign banks is only 62.74 billion. As shown by the standard deviation, the variation in GNPA of these three ownership banks is also high for public sector banks compared to private sector and foreign sector banks.
- To test the mean GNPA across the three ownership bank, the study used the analysis of variance. The results of one way ANOVA is shown in table. Results indicate that there is a significant difference in the mean GNPA across the Public, Private and Foreign sector banks during the study period which is observed by an F value of

Table 2: Descriptive Statistics of Gross Non-Performing Assets

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Public sector	17	1510.2435	1889.01986	458.15461	538.9991	2481.4879	389.68	6847.33
Private sector	17	237.3124	211.77780	51.36366	128.4263	346.1985	59.63	919.15
Foreign sector	17	62.7382	43.61152	10.57735	40.3153	85.1612	20.37	157.98
Total	51	603.4314	1257.53945	176.09074	249.7427	957.1200	20.37	6847.33

8.81 and probability value of 0.001. But the limitation of this ANOVA is that based on the results it is not possible to identify which bank's GNPA is statistically different from the other banks.

- Hence the study used Post-Hoc test to identify whether the mean GNPA of the three sector of banks are individually different with other sectors of banks. The results of the Duncan tests are given in the table. The results reveals that the mean GNPA of private sector and foreign sector banks are not statistically significant, meaning there is no difference in the average GNPA between private and foreign sector banks whereas the GNPA of public sector banks are significantly different from other two groups.

Table 3: ANOVA Test of Gross Non-Performing Assets

	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
Between Groups	21227908.381	2	10613954.191	8.808	.001
Within Groups	57842365.309	48	1205049.277		
Total	79070273.691	50			

Table 4: Post Hoc Duncan test of Gross Non-Performing Assets

<i>GROUP</i>	<i>N</i>	<i>Subset for alpha = 0.05</i>	
		<i>1</i>	<i>2</i>
3.00	17	62.7382	
2.00	17	237.3124	
1.00	17		1510.2435
<i>Sig.</i>		.645	1.000

B. For the second objective of measuring the impact of NPAs on the performance of Indian banks. The banks chosen are Punjab National Bank from the public sector banks, Axis bank from Private sector banks and Citi bank from Foreign sector banks.

- The test was conducted to understand the level of impact of NPA on the performance indicators of the banks that is Return on assets, Return on equity and Return on investment.
- The linear regression model of the three banks selected for the test showed that the Punjab national bank had the highest NPA and the private and foreign sector banks had the NPAs on the lower ranges.
- There is an inverse relationship between the level of NPA and these performance indicators which are proven by the linear regression

test where there were negative values detected for the performance indicators. It implies any increase in the NPA could lead to decrease in the performance indicators value which in turn implies that statistically we could prove that the increase in the NPA could lead to decline in the level of the performance of the banking sector of the different ownership.

- We could observe that the Punjab national bank and the Axis bank had a greater impact of NPA on the performance indicators – Return on Equity, Return on Assets and Return on Investment which was observed by the quantum of negative values detected from the tests.
- But the Citi bank was detected with least negative values in terms of ROA and ROE. In the case of return on investment there was a positive value detected which was not as per the expectation of the study, which also means that the NPA is not the only factor influencing the level of Return on investment. There are other factors also which are contributing to the impact of NPA in the Return on investment which was also projected by the level of significance being more than .0001 unlike other cases.

CONCLUSION

The inefficiency of the banking business can bring in friction in the smooth working of the economy. The problem of NPAs is also one of it. The NPAs can create a problem in the demand and supply chain of the funds which is operated through the banking sectors.

The study conducted above showed us that the NPAs are increasing in the public sector banks and averagely in the private sector. The least affected by the NPA is the foreign sector banks.

This also means that there are other indicators influencing more on these performance indicators. On a macro level of the study, we have understood that there is an inverse relationship between the NPA and performance indicators mentioned in the study, that is return on assets, return on equity and return on investment.

The study above conducted using the exponential growth model showed us that the Gross NPA is increasing at the pace of 15.4% in the public sector, average annual growth rate of GNPA in private sector banks is 12.5% and the average annual growth rate of GNPA in foreign sector banks is 12.2%.

There are some suggestions regarding the study conducted which is inferring that there is an exponential increase in the NPAs from the beginning of the period to the ending of the period that the study has considered.

- The NPAs has been creating a stoppage to the flow of funds and also the central banks that is RBI has taken multiple measures to control the increasing NPA in the Indian banks. But there is still increasing Non-performing assets in the Indian banks. This can be caused by the bureaucratization in the Indian banking sector, especially in the public sector banks. This is also a consequence of the priority sector lending. The cause of increasing NPA is because of poor evaluation of the assets and the creditworthiness of the borrower.
- The banks have to check the borrower's credit worthiness and also the capacity to return the loan before lending.
- The insolvency and bankruptcy code should be strengthened so as to the banks to quick decisions regarding the bad debts.
- The management level efficiency to manage political pressures and red-tapism should be important so that the managers could take quick decisions regarding the provisions of loans and advances.

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