



A STUDY ON NON-PERFORMING ASSETS OF PUBLIC SECTOR BANKS - A SELECT STUDY

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ABSTRACT

Non-performing assets (NPAs) are bad debts for banks and they have become headache while declaring net profit. In this study the growth of NPAs among public sector banks had been described. Syndicate Banks NPA for a period of five years have been analyzed in this paper. Some suggestions were given for banking professionals which should be considered before sanctioning loans.

KEYWORDS : Nonperforming assets, Syndicate Bank, NPAs, non performing loans, NPLs, banking sector, gross NPA, net NPAs.

INTRODUCTION

Non-performing assets (NPAs) are become tough challenge for banking sector globally. The performance of banks is negatively affected by NPAs in recent years. It is time to think about developing strategies for reducing NPAs in banking sector. NPA can be described as a bad loan where payment of installment or due is stopped by the borrower for more than ninety days. Syndicate Bank had developed strategies to reduce gross NPA by 12 percent and the Net NPA below 6 percent. It had kept the target for settlement of 18,000 crore bad loans (ET Bureau, 2019). In this paper the NPAs of Syndicate Bank are analyzed and their impact on profitability of the bank.

OBJECTIVES

1. To know the gross NPAs of Syndicate Bank
2. To describe net NPAs of Syndicate Bank
3. To analyze the impact of gross NPA on net profit of the bank.

Literature Review

CARE Ratings report had pointed out that the non-performing assets of 26 listed banks stood at Rs 7.31 lakh crore as per their declared Q4 FY18 results. Since then, all the 12 remaining listed banks have also announced their results, including Bank of Baroda, Andhra Bank, Corporation Bank and private lenders like City Union, Dhanlaxmi and Karur Vysya (Business Today, 2018). The Government of India felt that the usual recovery measures like issue of notices for enforcement of securities and recovery of dues was a time consuming

process (Rajeev and Mahesh, 2010). The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, was passed on December 17, 2002. The act provides enforcement of the security factor without recourse to civil suits.

Joseph (2014) had explained about that efficiency of banks can be measured by their level of NPAs. Selvarajan and Vadivalagan (2013) had stated that India is successful in minimizing the NPA with stringent rules and regulations in banking sector. NPAs will negatively impact return on investment (ROI) and it increases cost of capital for banks (Singh, 2016). The NPAs can be decreased if banking organizations appoint professional who can analyze the repayment capability of borrowers before sanctioning the loan. The credit rating agencies should be given independent to evaluate the performance of banks to minimize NPAs.

RESEARCH METHODOLOGY

Data was analyzed only for Syndicate Bank and it is completely secondary data. The websites of Syndicate Bank and RBI have been accessed for collected secondary data required for this study. SPSS version 20.0 had been used for data analysis and tools like regression, correlation and graphs have been used. The financial statements of five years from 2014 to 2018 have been considered for this research. Two hypotheses H1 and H2 are formulated based on the objective of this study. There were tested using correlation and regression analysis respectively.

DATA ANALYSIS

Table 1: NPAs of Public Sector Banks

Financial Year 2017-18					
	As on 31.03.2018		Amount in Crores		
S.No	Bank Name	Gross NPA (%)	Operating Profit	Provisioning Done	Net Profit
1	Allahabad Bank	16.00	3438	8113	-4674
2	Andhra Bank	17.10	5361	8774	-3413
3	Bank of Baroda	12.30	12006	14437	-2432
4	Bank of India	16.60	7139	13183	-6044
5	Bank of Maharashtra	19.50	2191	3337	-1146
6	Canara Bank	11.80	9548	13770	-4222
7	Central Bank of India	21.50	2733	7838	-5105
8	Corporation Bank	17.40	3950	8004	-4054
9	Dena Bank	22.00	1171	3094	-1923
10	IDBI Bank Limited	28.00	7905	16142	-8238
11	Indian Bank	7.40	5001	3742	1259
12	Indian Overseas Bank	25.30	3629	9929	-6299
13	Oriental Bank of Commerce	17.60	3703	9575	-5872
14	Punjab & Sind Bank	11.20	1145	1889	-744
15	Punjab National Bank	18.40	10294	22577	-12283
16	State Bank of India	10.90	59511	66058	-6547

17	Syndicate Bank	11.50	3864	7087	-3223
18	UCO Bank	24.60	1334	5771	-4436
19	Union Bank of India	15.70	7540	12787	-5247
20	United Bank of India	24.10	1025	2479	-1454

(Source: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=180937>)

H1: There is an association between Gross NPA percent and net profit/loss among public sector banks.

2 Table: Correlations

		Gross NPA Percent	Net Profit/Loss
Gross NPA Percent	Pearson Correlation	1	-0.347
	Sig. (2-tailed)		0.134
	N	20	20

Net Profit/ Loss	Pearson Correlation	-0.347	1
	Sig. (2-tailed)	0.134	
	N	20	20

H1 is rejected because p-value between Gross NPA percent and Net Profit/Loss is more than 0.05 as per Table 2. The information from Table is used for testing the hypothesis H1 through SPSS software.

Table 3: Gross and Net NPAs Public Sector Banks

(Amount in ` Billion)								
Year (end-March)	Advances		Non-Performing Assets (NPAs)					
	Gross	Net	Gross			Net		
			Amount	As Percentage of Gross Advances	As Percentage of Total Assets	Amount	As Percentage of Net Advances	As Percentage of Total Assets
1	2	3	4	5	6	7	8	9
2005-06	11347.24	11062.88	421.17	3.7	2.1	145.66	1.3	0.7
2006-07	14644.93	14401.46	389.68	2.7	1.6	153.25	1.1	0.6
2007-08	18190.74	17974.01	406.00	2.2	1.3	178.36	1.0	0.6
2008-09	22834.73	22592.12	459.18	2.0	1.2	211.55	0.9	0.6
2009-10	25193.31	27013.00	573.01	2.3	1.3	296.43	1.1	0.7
2010-11	30798.04	33044.33	710.42	2.3	1.3	360.55	1.1	0.7
2011-12	35503.89	38773.08	1124.88	3.2	1.9	593.91	1.5	1.0
2012-13	45601.69	44728.45	1644.61	3.6	2.4	900.37	2.0	1.3
2013-14	52159.20	51011.37	2272.64	4.4	2.9	1306.35	2.6	1.6
2014-15	56167.18	54762.50	2784.68	5.0	3.2	1599.51	2.9	1.8
2015-16	58219.52	55935.77	5399.56	9.3	5.9	3203.76	5.7	3.5
2016-17	58663.73	55572.32	6847.33	11.7	7.0	3830.89	6.9	3.9

Data on Scheduled Commercial Banks and Public Sector Banks for 2004-05 include the impact of conversion of a non-banking entity into a banking entity.

Notes :

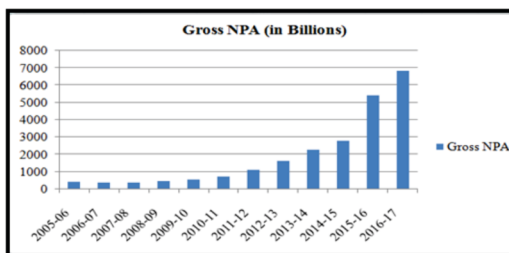
(Source: https://m.rbi.org.in/Scripts/Publications_View.aspx?id=18523)

(Source: Prepared from financial statements of Syndicate Bank)

Table 3 shows year wise growth of NPAs from 2005 to 2017. It is observed that NPA have increased constantly up to 2011 but later there was abnormal growth of NPAs in banking sector. Figure 1 shows the trend of NPAs growth from 2005 to 2017.

According to Table 4 the net profit of Syndicate bank had been declining or negative from 2016 onwards. The growth of NPA had increased tremendously from 2014 to 2018.

Figure 1: Growth of Gross NPAs Year-Wise



(Source: Created by author from secondary data)

Table 4: NPA of Syndicate Bank

(Amount in Lakhs)					
Year	Gross NPA	Net NPA	Net Profit	% of Gross NPA	% of Net NPA
2014	461113.00	272060.00	185508.00	2.62%	1.56%
2015	644238.00	384365.00	152293.00	3.13%	1.90%
2016	1383216.00	1760931.00	-151725.00	6.70%	4.48%
2017	901487.00	1041098.00	-164349.00	8.50%	5.21%
2018	2575860.00	1323946.00	-322284.00	11.53%	6.28%

H2: There is an impact of Gross NPAs and Net NPAs on net profit of Syndicate Bank.

Table 5: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	267257.761	101460.373		2.634	0.119
GROSS NPA	-0.141	0.089	-0.542	-1.581	0.255
NET NPA	-0.167	0.120	-0.477	-1.391	0.299

a. Dependent Variable: NET PROFIT

From table 5 it is observed that p-value for both Gross NPA and Net NPA is more than 0.05. Hence there is no association between NPAs and Net profit of Syndicate Bank

DISCUSSION AND CONCLUSION

From this research it observed that NPA had been a problem for banking sector at the macro level. However even it had impact on performance of Syndicate Bank. In the study period from 2014 to 2018 the NPAs have increased for public sector banks and also for Syndicate Bank. The banks should appoint consultants for reducing NPA and should also take their help

to minimize the existing NPAs. Even though banks are performing well and implementing advanced technology for providing customer service the existing NPAs are negatively influencing the net profits of the bank. Syndicate Bank is a public sector banks and it had recently taken initiatives for increasing the profitability and by minimizing the NPAs

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