A Study of Performance of Selected Public Sector Banks with Special Reference to Non-Performing Assets and Profitability

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Abstract - Indian banking is the lifeline of the country. Introduction of banking sector reforms have changed the look of Indian banking sector. Profit of the banking sector in India has assumed major importance due to strong competition, larger customer demands and changing banking reforms. Profit is an important criterion to measure the performance of public sector banks.

But on the other hand non-performing asset is a serious problem faced by the banking sector in India. The public sector banks in India are also suffering from this problem. The amounts of gross non-performing asset of the public sector banks are mounting in recent times in India, which adversely effects on its net profit and performance. Therefore to improve the efficiency and profitability of public sector banks, the NPA must to be reduced and controlled. This study is based on different trends of gross nonperforming assets and net profit of selected public sector banks. This research paper works on "A Study of Performance of Selected Public Sector Banks with Special Reference to Non-performing Assets and Profitability". The period of study is taken from 2013 to 2022.

Key Words – Banking sector, Performance, Gross Nonperforming Assets, Net Profit, Public Sector Banks.

I. INTRODUCTION

For any country, banking sectors play an essential role for the nation's growth and development. That is why, whatever happens in the banking sector, it affects the economy. The Indian banking sector has been facing so many serious problems or issues. Out of them, Non-Performing Assets (NPA) is a burning problem faced by the Indian banking system. Receiving deposit and lending money is the main business of a public sector bank. Receiving of deposit from the customer does not involve any risk. But lending of fund to the customers always involves risk. This is because there is no certainty regarding the repayment of the fund at the specific time period. Money or assets landed by the banks to the customers as loans remain sometime unpaid. If a landed amount is not repaid, then the bank is said to be facing loss of asset or it is failed to create income. These assets which do not create income are called as non-performing asset (NPA) or bad asset. In other words NPAs are those which are not meeting its state principle and interest payment. Generally, banks classify any commercial loans and consumer loans as non-performing asset which are more than 90 days and 180 days overdue respectively.

II. DEFINITION OF NON-PERFORMING ASSET IN INDIA

The Concept of Non-Performing Assets was first time introduced by Narasimham Committee (Committee on financial system reforms, 1991) during 17th December, 1991. A non-performing asset is a loan or advances for which the principal or interest payment remains overdue for a period of 90 days. It stops generating income for the bank. As per RBI, as asset becomes an NPA when:

(1) In case of a Term Loan: - When interest or installment of principal or both remains unpaid by the due date for a period of more than 90 days.

(2) In case of Overdraft or Cash Credit (OD/CC): – When the account remains out of order for a period of more than 90 days. An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power.

 DOI : 10.35291/2454-9150.2022.0451

International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-08, Issue-07, Oct 2022

(3) In case of Bills: – When the bill remains unpaid by the due date for a period of more than 90 days.

(4) In case of other Accounts: – When any amount to be received remains unpaid by the due date for a period of more than 90 days.

(5) In case of direct agricultural loans:

(a) Loan granted for short duration crops - if the installment of principal or interest remains unpaid by the due date for two crop seasons.

(b) A loan granted for long duration crops - if the installment of principal or interest remains unpaid by the due date for one crop season.

III. CLASSIFICATION OF ASSET

As per Reserve Bank of India, Banks should classify their assets into the following broad groups.

(3.1) Standard Assets:-

The assets in which the risk associated with them is just the basic risk which is associated with every business and also they don't have any issue are termed as Standard Assets. Earlier no provisions was required on standard assets. However from 31.3.2003, a 0.25% provision needs to be created by the banks on standard assets on the basis of global loan portfolio basis.

(3.2) Substandard Assets:-

Assets which are Non-Performing Asset (NPA) and not exceeding two years are termed as Sub-standard assets. However from 31.03.2001, sub-standard assets are those assets that have remained as non-performing asset for less than 18 months. In such scenarios, it is not possible for the banks to recover all the dues from the customer as the current market value of the asset or net worth of the borrower/ guarantor is not enough. It means that if the anomalies are not rectified then such assets will have a credit gap and this will hamper the liquidation of debt and thus there are chances of some loss that has to be borne by the banks. A 10% provision of the total outstanding amount has to be made in case of sub-standard assets.

(3.3) Doubtful Assets:-

Assets which are NPA and have exceeded two years are termed as Doubtful Assets. However from 31.03.2001, doubtful assets are those assets that are NPA and exceeding 18 months (1.5 years). All the components of sub-standard assets are present in Doubtful assets along with the additional components. There are two components for provision in respect of doubtful debts. They are as per the following:

(a) If a part of debt is not covered by the attainable market price of the asset then a hundred percent provision has to be made for that part.

(b) In addition to the above (a) for the secured portion of the doubtful assets, depending upon the duration of the doubtful asset, a provision ranging from 20% to 50% will be made.

(3.4) Loss Assets:-

Loss Assets are those losses which are recognized by the bank through inspection conducted by the RBI however the entire amount has not been discounted. It means that the asset with the bank is not worthy or its worth is so less that it cannot be considered as an asset even though it might have some recovery value associated with it. The whole asset ought to be discounted. In such scenarios, the asset is kept in the books and hundred percent of the 'net book value' ought to be given.

IV. FACTORS RESPONSIBLE FOR NPA

- Diversion of fund for expansion, diversification, modernization or for taking up new projects.
- Diversion of fund for assisting or promoting associate concerns.
- Decline of business because of failure in product/marketing as well as failure in financial administration, stressed work relations, selection of unseemly innovation, utilizing obsolete hardware, specialized issues and outdated products.
- Economic recession, input deficiency, power shortage, price escalation, natural calamities and issues with clients leading to non-payment of over dues.
- Pandemics like Covid 19.
- Political pressure to grant loans.

DOI : 10.35291/2454-9150.2022.0451

- Over run cost and time during project implementation stage.
- Carelessness in credit management and monitoring.
- Willful default, redirecting assets, extortion and misappropriation of funds.
- Change in government policies and Exchange rate fluctuations
- Lack of proper verification and screening of application.
- Sudden crash of capital market and inability to raise adequate funds.
- Priority sector lending.
- Loans made under social obligations.
- Shortfalls in the recovery mechanism of banks.

V. EFFECTS OF NPA ON THE PERFORMANCE OF PUBLIC SECTOR BANKS

NPA of Public Sector Banks has adversely effects on a bank's profit in a number of ways:

- Reduce the earning capacity of assets and badly affect the rate of interest.
- The cost of capital will rise.
- Increase in non-performing assets leads to deficiency in funding to other borrowers.
- Higher provisioning requirement on mounting NPAs adversely affect capital adequacy ratio and banks profitability.
- The economic value additions by banks get upset because an economic value addition is equal to the net operating profit minus cost of capital.
- NPAs causes to decrease the value of share sometimes even below their book value in the capital market.
- NPAs affect the risk facing ability of public sector banks.

VI. REVIEW OF LITERATURE

Abid Husain,G. Kadiw and Dr. Rasikbhai,I. Prajapati (Feb. 2020), were studied "Sector-wise comparative analysis of Non-performing Assets of selected private sector and public sector banks of India''. According to them there is difference among the NPAs in both the public and private sector banks. This study reveals that types of banks and sector-wise NPAs do not have combine effect over total NPAs of the banks. Study result shows that in public sector banks category of industry of both the priority and non-priority spotted higher NPAs. Average NPAs for the study period of all the selected private banks are less than 5% and average NPAs for the study period of major all the selected public sector banks are more than 5%.It is found in the present study that asset quality and efficiency of debt coverage of private sector banks are better than public sector banks. In comparison to private sector banks, public sector banks registered higher NPAs.

Chellasamy, D., & Prema, A. (2018) were studied the "Impact of NPA on Profitability Performance of Select Public and Private Sector Banks in India". The research was done to check whether profitability is related to NPA. The research also determined how the profits of banks are affected due to NPA. It suggested that NPAs cannot completely be removed but it is possible to control it.

Dudhe, Chetan. (2017) studied the "Impact of non-performing assets on the profitability of banks – a selective study". Researcher emphasized on the fact that NPAs not only affect the financial institutions but overall financial system gets affected. The study was performed on selected banks to assess changes in the bank's profit due NPAs. The study also suggested that now the assets possessed by banks will be assessed along with other factors viz. Deposits, number of branches etc.

Harani B, Subramanyam Mutyala (DEC 2019) were studied ''A comparative Analysis of Non- Performing Assets (NPAs) of public and private sector banks in India- An Endless Battle". Their investigation indicates that NPAs problem is a very serious concern and it's an endless battle in India because it destroys the sound financial position of them. This problem has to be addressed in such a way that it should not impact on the financial position and image of the bank. This study analysis the sector-wise classification NPAs and loan assets of public and private sector banks. It also examines the gross NPAs, gross advance and gross NPAs ratio of public and private sector banks in India. This study also reveals that non –priority sector loans have worsened NPAs which cause headache for public sector

 DOI : 10.35291/2454-9150.2022.0451

International Journal for Research in Engineering Application & Management (IJREAM)
ISSN : 2454-9150 Vol-08, Issue-07, Oct 2022

banks. This study found out that among the public sector banks the average gross and Net NPAs of SBI, PNB, BOI is recorded above the overall average of the sample banks. The level of gross and net NPAs of public and private sector banks increased gradually on year from 2014 to 2018. So, it recommended to the regulators and respective bank officials take the necessary steps to reduce the NPAs and improve the recovery mechanism. Also found that there is a significant positive relationship between gross NPA and Net NPA of public and private sector banks and also negatively significant relationship between gross and net NPA with ROA of public and private sector banks.

Kavitha N. and Muthu Meenakshi M. (March 2016) have studied ‘’A comparative study of Non-Performing Assets of Public and Private Sector Banks”. They investigated that the extent of NPA was relatively very high in public sector banks. Although various steps have been taken by government to reduce the NPAs but still a lot of needs to be done to curb this problem. To improve the efficiency and profitability, the NPAs have to be scheduled; various steps have been taken by Govt. to reduce the NPAs. They also mentioned in this research is that the problem of NPAs needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

Mayur Rao and Anrita Patel (2015) made a study on non-performing assets management with reference to public sector banks, private sector banks and foreign banks in India. Interpret and analyze the NPA management from the year 2009-13. They use least square method and ANOVA test to judge the presence of any significant difference between ratios of gross NPA to gross advances. They found reveals the percentage of gross NPA to gross advance is increasing for public banks, ratio of loss advances to gross advances are higher in foreign banks. They found does not have significant difference.

Prasad, G.V.B. & Veena, D. (2011), were studied the),”'NPAs Reduction Strategies for Commercial Banks in India”. Their paper dealing with the understanding of the concepts of NPA, its magnitude and major causes for an asset converting to a NPA, and main approaches for management of NPA in Indian banks, stated that NPA does not generate any income and at the same time banks have to make provision against the principle amounts from their operational profits. Hence NPA has an adverse impact on the ROA and it limits the recycling of the funds a well.

Sharifi, O. and Akter, J. (2016) have examine the trends, status and impact of NPAs on profitability of Public Sector Banks during the period of 2009-2015 and found that the impact of NPAs negatively on financial performance of Public Sector Banks.

Sinfh Vivek Rajbahadur (2016) studied the topic of ’’A study of Non-Performing Assets of Commercial Banks and it’s recovery in India”. This research paper found that NPA is just not only problem for the banks but for economy too. It studies the status of NPAs of Indian scheduled commercial banks in India. It also studies the impact of NPAs on banks and also knows the recovery of NPAs through various channels. It also gives appropriate suggestions to avoid future NPAs and to manage existing NPAs in banks. The study shows that extent of NPA is comparatively very high in public sector banks. NPAs level of our banks is still high as compared to foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process.

VII. SCOPE OF THE STUDY

The study of Performance of Public Sector Banks is very important for Public Sector Banks, because increasing trend of Net Profit indicates the good financial health and on the other hand increasing trend of Gross NPA will adversely effects on Net Profit.

The study can suggest various measures, to increases the Net Profit and reduces the NPA.

VIII. OBJECTIVE OF THE STUDY

- To analyze the trend and magnitude of non-performing asset of Public Sector Banks.
- To evaluate the financial performance of selected Public Sector banks.
- To compare the Net profit of the selected Public Sector Banks.
- To compare Gross Nonperforming Assets of selected Public Sector Banks.

 DOI : 10.35291/2454-9150.2022.0451

- To suggest various measures for improving performance of Public Sector Banks.

IX. Hypotheses

Ho: There is no significance difference in Growth of Net profit of selected Public Sector Banks.

Ho: There is no significance difference in Growth of Gross Nonperforming Assets of selected Public Sector Banks.

X. Research Methodology

(10.1) Sources of Data:

The research follows the descriptive research approach. The present research paper "A Study of Performance of Selected Public Sector Banks with Special Reference to Non-Performing Assets and Profitability" is mainly based on secondary data. Secondary data was collected from a variety of sources like the annual reports of the selected Public Sector Banks, RBI reports, different literature books, journals, magazines and various websites of respected banks.

(10.2) Sampling Techniques:

Convenience sampling techniques have been used for the study. It includes quantitative techniques for the study.

(10.3) Sample for the Study:

In this study, researcher has selected following 4 Public Sector Banks.

1. Central Bank 0f India
2. Bank of Baroda
3. State Bank of India
4. Punjab National Bank

(10.4) Period of the Study:

The present study has been covered a period of 10 financial years from 2013 to 2022.

(10.5) Statistical Tools:

Data presents in the form of Figure and Tables. Then it is analyzed and interpreted through statistical techniques i.e. statistical test like T or F.

XI. Analysis and Interpretation

(11.1) Analysis and Hypothesis testing of Gross NPA of Public Sector Banks

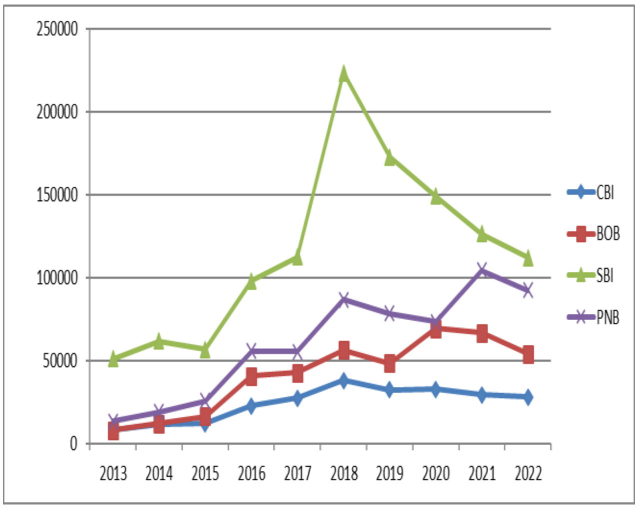
Table: 1, Gross NPA of Public Sector Banks (Rs in Crore)

Year	CBI	BOB	SBI	PNB
2013	845	7983	51189	13466
2014	11500	11876	61605	18880
2015	11873	16261	56725	25695
2016	22721	40521	98173	55818
2017	27251	42719	112343	55370
2018	38131	56480	223427	86620
2019	32356	48233	172750	78473
2020	32589	69381	149091	73479
2021	29277	66670	126389	104423
2022	28156	54059	112023	92448

Source – Annual Reports of Banks

Above table indicates the movement of Gross Nonperforming Assets of Public Sector Banks during 2013 to 2022**.** Gross Nonperforming Assets of CBI and BOB have shown increasing trend during 2013 to 2022, except 2019, 2021 and 2022. Amount of GNP of CBI has increased from 8456 crore to 28156 crore and BOB has increased from 7983 crore to 54059 crore during the period of study. Except 2015, SBI has shown increasing trend during 2013 to 2018 and then start decline till 2022. But however it remains very high as compared to other selected banks. PNB has shown positive trend except 2017, 2019, 2020 and 2022. Gross NPAs of SBI is highest as compared with other banks.

Figure: 1, Gross NPA of Public Sector Banks (Rs in Crore)



Above figure-1 shows the trend of Gross NPA of selected public sector banks. It can be seen from the above figure

 DOI : 10.35291/2454-9150.2022.0451

that from the period 2013 to 2018, Gross NPAs of CBI, BOB, SBI and PNB have shown increasing trend and then it starts decline except PNB. SBI has indicated highest Gross NPAs in the year 2018.

Hypothesis testing:-

Ho: There is no significance difference in Growth of Gross Nonperforming Assets of selected Public Sector Banks

Table-2, ANOVA TABLE

Sources	SS	Df	MS	
Between Treatments	48011176879.8	3	16003725626.6	F = 13.80496
Within Treatments	41733862686.2	36	1159273963.5056	
Total	89745039566	39		

From the above table, at 5% level of significance and 3, 36 d.f, the calculated value of F is 13.80496 and the Tabulated value of F is 2.8**.** Therefore calculated value of F > Tabulated value of F. More over the value p =0.00001 < 0.05. So Null Hypothesis is rejected. Therefore it can be said that there is significance difference in Growth of Gross NPAs of selected Public Sector Banks.

(11.2) Analysis and Hypothesis testing of Net Profit of Public Sector Banks

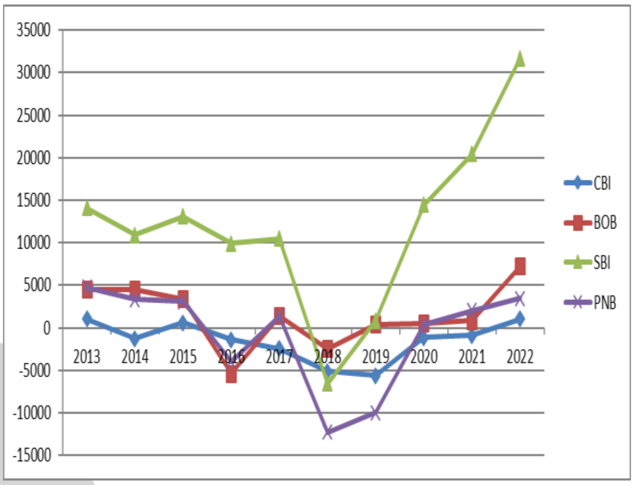
Table: 3, Net Profit of Public Sector Banks (Rs in Crore)

Year	CBI	BOB	SBI	PNB
2013	1015	4481	14105	4748
2014	-1263	4541	10891	3343
2015	606	3398	13102	3062
2016	-1418	-5396	9951	-3974
2017	-2439	1383	10484	1325
2018	-5105	-2431	-6547	-12283
2019	-5641	434	862	-9975
2020	-1121	546	14488	336
2021	-888	829	20410	2022
2022	1045	7272	31676	3457

Source – Annual Reports of Banks

Above table shows the Net Profit of selected Public Sector banks during 2013 to 2022. Net profit of CBI has shown variations during the period of study. It's become negative in most of the years and start making profit during 2022. Except 2014, net profit of BOB has shown decaling trend during 2013 to 2021 and start rising in 2022. It's become negative during 2016 and 2018. Net profit of SBI has shown variations during 2013 to 2017 and become negative in 2018. . But later it shows rising trend and reached its highest level to 31676 crore in 2022. PNB has shown decreasing trend and become negative during 2016, 2018 and 2019. The net profit of SBI is highest as compared with other banks.

Figure: 2, Net Profit of Public Sector Banks (Rs in Crore)



Above figure-2 shows that the net profit of selected public sector banks has downward trend till 2018 and then its starts slightly rising. Net profit of CBI becomes negative in the year 2014 and 2016 to 2021. SBI has shown highest net profit in the year 2022.

Hypothesis testing:-

Ho: There is no significance difference in Growth of Net Profit of selected Public Sector Banks

Table-4, ANOVA TABLE

Sources	SS	Df	MS	
Between Treatments	1168402084.475	3	389467361.4917	F= 9.76569
Within Treatments	1435723407.5	36	39881205.7639	
Total	2604125491.975	39		

From the above table, at 5% level of significance and 3, 36 d.f., the calculated value of F is 9.76569 and the Tabulated value of F is 2.8. Therefore calculated value of F > Tabulated value of F. More over the value p = 0.000075 < 0.05. So Null Hypothesis is rejected. Therefore it can be said that there is significance difference in growth of Net Profit of selected Public Sector Banks.

DOI : 10.35291/2454-9150.2022.0451

XII. Limitation of the Study

- There are many financial heads however I have considered only two viz. Non-Performing Assets and Net profit.
- Time period considered for this study is ten years from 2013 to 2022, thus for better results and better insights, a longer time period must be considered.
- The study is limited to the selected 4 Public Sector Banks.
- In this research, only selected public sector banks are covered. Cooperative banks, private banks and foreign banks could not be covered.
- . The study is related to only secondary data, primary data cannot be covered.
- The results of the study cannot be generalized to other bank groups except Public Sector banks as the data are obtained with special focus on Public Sector Banks.
- The study has been undertaken only through the analysis of quantitative financial data. The qualitative aspects of the banking sector having a bearing on the profitability could not be incorporated.

XIII. Findings

- The study makes it clear that all the selected public sector banks are facing serious problem of NPAs.
- Performance of CBI and PNB are very poor due to Rising NPAs. Because Gross NPAs of both this banks are rising. But on the other hand, there is negligible change in net profit of CBI and net profit of PNB has reduced during the period of study.
- Gross NPAs of SBI is the uppermost but at the same time SBI earning high profit as compared with other selected public sector banks.
- Performance of BOB is an average during the period of study.
- With the help of ANOVA test both Null Hypothesis are rejected. In other words there is significance difference in Growth of Gross NPAs of selected Public Sector Banks. Similarly there is significance difference in growth of Net Profit of selected Public Sector Banks.

XIV. Conclusion and Suggestions

The mounting NPA of banking sector of India become a serious problem for the economy. Though, the concept of non-performing asset is associated only with the banking sector, the negative effects of its spread out to the whole economy in the long run. NPA results decline in profitability and liquidity position of banks and thus aggravate the banking environment of the country.

This research investigated the performance of selected public sector banks with special reference to NPAs and profitability from 2013 to 2022. It can be conclude that in most of the years Gross NPAs of CBI, BOB, SBI and PNB had remained very high. Sometimes selected public sector banks got losses instead of profit due to rising Gross NPAs. The performance of SBI is better and BOB is average while the performance of CBI and PNB are very poor during the period of study. Therefore its necessary to reduces Gross NPAs to improve the performance of public sector banks. So following strict measures must be taken to tackle the problem of NPAs.

- The Reserve Bank of India should revise the monitoring system as well as the existing credit assessment system of public sector banks.
- To ensure that customers do not divert their funds, the public sector banks should regularly follow-up on their customers.
- At regular intervals, all the loan accounts should be revised by public sector banks.
- The public sector banks should take the necessary action against the defaulters like publishing their names in the local newspapers, broadcasting media, which is helpful to other public sector banks and financial institutions.
- To overcome the flaws of credit appraisal and monitoring, public sector banks should properly train their employees and staff.
- The banks rather than giving credits to small agriculturists should make arrangements to give

 DOI : 10.35291/2454-9150.2022.0451

them protection approaches for crop protection and income security.

- The investor must be look at the balance sheet, which indicated real picture of business, profit/loss account and balance sheet. Whereas expanding credit banks ought to look at the reasons for the advance. Banks must allow advance for a beneficial reason only.
- To recover the NPAs and controlling new NPAs, a few measures should be taken by the central government and RBI. Those are one-time settlement schemes, Lok Adalat, Debt Recovery Tribunals, Securitization and SARFAESI Act, Asset Reconstruction Company, Corporate Debt Restructuring, etc.

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