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**Increasing non-performing assets & its impact on the profitability of banks  
during the Pandemic-2019**

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## **Abstract:**

Assets become non-performing asset when it stops generating returns for the bank. The non-performing assets significantly impact the financial performance of the banks especially during the pandemic 2019. Thus non-performing asset is very important to be considered while measuring the financial performance of any financial institution and the NPA has shown a huge grown owing to the adverse situation due to the COVID-19 pandemic all over the world. Irrespective of the fact that the banks disburse credit with utmost precautions still they are widely facing the issues of non-repayment of loans and advances leading to increasing nonperforming assets. Thus a research is conducted to study the non-performing assets of the selected banks namely State Bank of India, Canara, Bank of India, Bank of Baroda and Punjab National Bankowing to the pandemic situation in the country. The research is based on the secondary data retrieved from annual reports of the banks, report of trend and progress of Banking in India, handbook of RBI& research journals. This research aims to determine the impact of nonperforming assets on the profitability of the selected banks in India.

**Keywords:** NPA, Financial Performance, Bank, Profitability

## Introduction:

Banks are the institutions carrying banking business. Banking involves accepting deposits and lending loans and advances to the public. In the beginning the banks aimed for financial inclusion by increasing the reach of its services and lending to priority sector. <sup>(1)</sup> This lead to depreciation in the quality of assets and increased the nonperforming assets of the banks. Nonperforming assets are the loans and advances given to the customers and whose repayment is outstanding since a specified period. <sup>(2)(3)</sup>

Reserve bank of India has defined NPA as “as a credit facility in respect of which the interest and/ or installment of principal has remained ‘past due’ for a specified period of time.”<sup>(4)(5)</sup> The specified period is 90 days 1995 onwards. Reserve bank of India has further classified the non-performing assets as substandard asset, doubtful asset and loss asset. Substandard assets is defined as “one, which has remained NPA for a period less than or equal to 18 months”.<sup>(6) (7)</sup> Doubtful asset is defines as “an asset is to be classified as doubtful, if it has remained NPA for a period exceeding 18 months” and loss asset is defined as “A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.”<sup>(8) (9)</sup>

The increasing Nonperforming assets started adversely affecting the financial performance of the banks. The public sector banks in India are majorly hit by the NPA crisis compared to the private banks and the other



financial institutions. <sup>(10)</sup>Due to the market scenario and the increased competitiveness because of the private sector banks the public sector banks had adopted liberal and loose credit policy and have given substantial credit to a few corporate clients and few sectors. This is the major reason for the NPAs in PSBs. <sup>(11)</sup> <sup>(12)</sup>

Owing to the Pandemic situation the Economy has suffered a huge set back. Many of the Individuals have lost jobs, facing substantial salary cuts and facing business crisis which has adversely affected the household income. <sup>(13)</sup>The fall in household income has led to non-payment of the installments on load taken thus has led to an increase in the NPS affecting the bank profitability adversely. <sup>(14)</sup>

#### Research Methodology:

Research focuses on studying the increasing thenon-performingassetsand its impact on the profitability of the selected public sector banks owing to the pandemic. For the purpose of study five public sector banks are selected namely State Bank of India, Canara, Bank of India, Bank of Baroda and Punjab National Bank.

#### Objective of study:

1. To evaluate the relationship between NPA & profitability
2. To study the impact of non-performing assets on the profitability of the banks

#### Data Collection:

Secondary data was collected for the purpose of research from the annual reports of banks, journal, articles, Newsletters of bank, RBI bulletins, RBI Report on Hand book of Indian economy, RBI notification and various other websites.

#### Hypothesis:

There is no significant relationship between level of NPAs and profitability ofbank owing to pandemic situation.

#### Technique of Data Analysis:

The secondary data collected is analyzed using various statistical tools and techniques. Analysis was made using MS-Excel and SPSS software.

#### Scope&Limitations:



The study could suggest measures for the banks to avoid future NPAs & to reduce existing NPAs

The study is based on Secondary data which carries its own limitations.

The basis for identifying non-performing assets is taken from the Reserve Bank of India Publications.

The data is Time bounded

The study only concentrates on increasing thenon-performing assets and its impact on profitability of banks owing to the pandemic situation.

### Data Analysis and Interpretation:

To test the hypothesis i.e. “There is no significant relationship between level of NPA”s and Profitability of Banks owing to pandemic situation” One Way ANOVA test is applied using SPSS tool. 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.

### Descriptive Statistics

	Mean	Std. Deviation	N
Net Profit Margin	6.7093	10.08817	400
NPA to Loan Advances Ratio	2.1950	2.59932	400

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763 <sup>a</sup>	.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 this enlightens that the model account for 58.1% of variance in the present study. This is the clear indication that this model is a semi strongmodel. 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 Banksdurinf pandemic. This proves that NPA affects the profitability of banks.



## ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23610.610	1	23610.610	552.893	.000 <sup>b</sup>
	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 NPAs and Profitability of Banks is rejected and alternate hypotheses i.e. there is significant relationship between level of NPAs and Profitability of Banks owing to pandemic situation is accepted.

### Conclusion and Recommendation:

The study concludes that the increasing nonperforming assets in the pandemic has affected the profitability of the banks. Non-performing assets has become a major issue for the banking sector and it has become essential to find a concrete solution for it. However the Nonperforming assets can be reduced by using an efficient recovery mechanism and applying precautionary control measures. As the NPA affects the liquidity position, profitability and overall financial performance of the banks it is a threat to the survival of the banks. For strengthen the banking system it is essential to reduce the NPAs. In the study of the relationship between level of NPA and profitability of Banks it is found from the analysis that there is strong relationship between change in Nonperforming assets & profitability of banks. The outcome shows that there is significant relationship between level of nonperforming assets and profitability of Banks. It is also found during the research that, selected PSBs have shown a similar result that profitability of the banks have depreciated, due to increase in their NPAs. This proves that NPA affects the profitability of banks.



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