ISSN : 2278-4632

JUNI KHYAT

जूनी ख्यात

IMPACT FACTOR : 6.625

UGC CARE Group I Journal

Vol-10 Issue-11 No.02 November 2020

JUNI KHYAT

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जूनी ख्यात

(संयुक्तांक)

सपादक

डॉ. बी.एल. भादानी

पूर्व विभागाध्यक्ष

इतिहास विभाग,

अलिगढ़ मुस्लिम विश्वविद्यालय, अलीगढ़

प्रबधक सपादक

श्याम महर्षि

मरुभूमि शोध संस्थान

संस्कृति भवन

एन.एच. 11, श्रीडूंगरगढ़ (बीकानेर) राजस्थान

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A STUDY AND REVIEW OF ASSET QUALITY OF PUBLIC SECTOR BANKS IN INDIA

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Abstract

A well-developed financial structure is the characteristic of an progressive economy. One of the prominent elements of financial system is banking industry. Banking industry in India has evolved significantly over the last three centuries. The role of banking in country's development cannot be overlooked. Indian Banking industry is supervised and controlled by Reserve Bank of India. Public sector and private sector banks held major market share in banking industry. Public sector banks (PSB) are the main stream of Indian banking and holds almost one third of total assets of banking sector. These banks are playing essential role achieving regional economic growth of economy with balanced approach since their Nationalization. An asset (Advances) is termed as Non-Performing Asset when principal and interest there upon remains outstanding for a stipulated time period as directed by RBI. Non-Performing Advances are categorized into Gross Non-Performing Advances (GNPA) and Net Non-Performing Advances (NNPA). As a country's largest lenders, these banks are more exposed to inherent business risk i.e. bad loans. In last few years public sector banks are heavily burdened with stressed assets. The high magnitude of NPA negatively impacting the profitability of these banks which is reflected into their reported financial reports in terms of losses. In this panic situations PSB's have to be more alert and cautious toward their asset quality. The Present paper has reviewed the non-performing loans of PSB's for the period of 2014-15 to 2018-19.

Keywords: NPA, Asset Quality, Public Sector Banks, Profitability

Introduction:

Banking industry in India has evolved significantly over the last three centuries. The role of banking in country's development cannot be overlooked. Post-independence there was need of government regulated banking system. Towards the beginning of the 20th century the need for government-regulated banking system was observed. In 1934 British Government come up with the regulatory body for banking in India and they established Reserve Bank of India. Since independence banking structure in India has developed saving habits in their customers and also have served different sectors of economy by providing credit as and when require. It has also ensured economic growth of country. Banks have coordinated between savings and sectoral investment to achieve balanced growth of nation. Bank as an intermediary in financial system pools financial resources from people and redistribute for capital formation in the form of lending or investment. Indian Banking industry is supervised and controlled by Reserve Bank of India. Public sector and private sector banks held major market share in banking industry.

Public sector banks hold almost one third of total assets of banking sector. These banks are playing essential role achieving regional economic growth of economy with balanced approach since their Nationalization. As of March 2019, 20 Public Sector Banks are operating in India. All these banks have shown steady growth and progress in earlier years but in recent past they are facing tough time due to increased amount of stressed assets. The high portion of stressed assets and NPA are the main reason behind declining profitability of banks, specially of public sector banks. As per RBI report , after long period of time efficiency of Public Sector Banks have been improved and they have net profit in their financial statements. The major reason behind this is growth rate in NPA's has declined as compare to previous years. In view of this RBI has initiated lot of revival steps against NPA's, which include

overcome on stressed assets, Prompt Corrective Action Framework (PCA), Asset Quality Review (AQR), Insolvency and Bankruptcy Code (IBC) etc. RBI has suggested that early recognition of bad loans and making provision against it will be useful for banks and this will show the prudency of banks. There were 11 Public Sector Banks under PCA before January, 2019. This number has been reduced to four which shows that financial health of PSB's is improving.
The present study makes an attempt to analyse asset quality of public sector banks. As NPA's are causing profitability of PSB's hence an attempt is also made to understand association of Net NPA and profitability of public sector banks.

Non-Performing Assets:
An Advances is termed as Non-Performing Asset when principal and interest there upon remains outstanding for a stipulated time period as directed by RBI. Non-Performing Loans are categorized into Gross Non-Performing Advances (GNPA) and Net Non-Performing Advances (NNPA). GNPA includes all advances which are treated as NPAs. Net NPA is simply Gross NPA minus provisions for NPA.
Norms for asset classification and its provision requirement is summarized into following table.

Classification of NPA	Criteria	Provisioning Norms
Substandard Asset	The Asset which remain NPA for a period Twelve months	Provision of 15% will be required (additional 10% in case of non-secured advances)
Doubtful Asset	An advance which remains as substandard assets for 12 months.	If loan is remaining in doubtful category – a) Up to 1-year provision requirement is 25% b) 1 to 3 years – 40% c) > 3 Years – 100%
Loss Asset	The advances which completely ceases to collect amount and interest.	100 % of outstanding amount.

Literature Review:
B. Senthil Arasu et al. (2019), have studied the impact of NPA on profitability of selected public and private sector banks in India. They suggested that proper recovery channel should be designed and developed by the regulators and bank officials.
Suvitha K Vikram, Gayathri G (2018), have analysed NPA's of public sector and private sector banks in India. The study tried to find out reasons behind abnormal non-performing assets as well as tools by which these can be controlled. Authors have considered the secondary data i.e research papers published between 2010 to 2017. They have found that, public sector banks have abnormal NPA as compare to the private sector. Also, the main reason behind NPA is efficiency of banks and borrowers intentions toward repayment of advances.
Banerjee, R. et al. (2018) in their study, noted that wilful defaulters, inappropriate credit policies and unlawful sanctioning loan are the major reasons behind non-performing assets. They have suggested that banks should formulate workable operating strategy and strict policy measures may help in reducing NPA level.
Mukho padhyay (2018) in his paper, has come up with the solutions for NPA problems in Indian banks. He has suggested instead of depending upon a rigid policy RBI should go ahead with the flexible and novel policies which will be applicable to banks based upon their situations.
Mittal and Suneja (2017) in their paper tried to find out main reasons behind rising level of NPA in Indian banks. They have proposed that banks should be more responsible for their policies with respect

to NPA. ROI of the investment project and borrower's credibility should be checked before releasing any loan amount. In relation to that Sahni and Seth (2017) have also suggested several preventive measures to control non-performing assets.
Dr. A. C. Pramila (2017), highlighted the causes for increasing NPAs, impact of NPAs on banks and the degree of NPAs in the Indian public sector banks. The study revealed that inapt loan supervision, absence of technical and managerial skills among borrowers, manipulation of debtors, absence of strict NPA norms are the main reasons behind NPA.
Garg (2016) Mentioned in his study that, private banks are very much responsible in managing and controlling NPA than public banks. The management of private sector banks are more efficient while controlling NPA as against public sector banks. The relevant and similar view was also expressed by Bhaskaran, et al. (2016) in their paper.
In studies like Singh (2016), Satpal (2014) have commented that the public sector banks are facing lot of challenges in managing and controlling NPA as compared to the private sector banks.
Dr. Seema Mahlawat (2015), analyzed reasons of high levels of NPAs in public sector banks. The study also revealed the effect of securitization act on level of NPA. The study had indicated different internal and external factors for increasing level of NPA.
B.Selvarajan & Dr. G. Vadivalagan (2013), have compared NPA's of Indian Bank with Public Sector Banks. The Priority sector advances have been analyzed in detail. They mentioned that the banks performance is comparatively better than other banks. They have also mentioned that the NPA's of Indian Banks are undercontrol.
Seema Gavade-Khompi (2013), analyzed commercial bank on the parameter of asset quality with the help of Compound Annual Growth Rate. The study found that the NPA's of commercial bank has consistently reduced during study period. The study reveled that the among all banks public sector banks are facing more problem of rising level of NPA.
Shalini (2013) has evaluated the NPA in agricultural sector in public sector banks. They have focused upon causes and remedial actions in reducing NPA in agricultural sector. It is suggested that the bank should check creditworthiness of the borrower before advancing credit facility. She also suggested that proper committees will play an important role in efficient management of NPA's in banks.

Research Methodology

The study describes the trend of NPA's of public sector banks and its impact on profitability. This descriptive study concerns with public sector banks in India. In all there are 20 public sector banks in India as of 31st March 2019. The relevant required secondary data is extracted from RBI database.
Non-performing loans are affecting not only public sector but also overall economy at large. Public sector banks are heavily affected by the bad loans. These bad loans are causing overall efficiency of banking industry. Present study focuses upon changes happened in Gross NPA, Net NPA and Asset classification and to understand relationship between NPA and net profit of these banks. Five years relevant financial data has been considered for the analysis purpose i.e. from 2014-15 to 2018-19

Study Objectives:

1. To evaluate asset quality of public sector banks in India.
2. To examine the association of Net NPA with Net Profit of public sector banks.

Hypothesis of Study:

Following hypothesis are tested in present study.

1) **(H_a0):** The mean value of Gross NPA among public sector bank is not significantly different.
   (H_a1): The mean value of Gross NPA among public sector bank is significantly different.
2) **(H_b0):** Mean value of Net NPA among public sector bank is not significantly different.

(H_b1): Mean value of Net NPA among public sector bank is significantly different.

3) **(H_c0):** The Net NPA's and Net Profit of Public Sector Banks are not significantly associated.
(H_c1): The Net NPA's and Net Profit of Public Sector Banks are significantly associated.

Data Analysis

The asset quality of banks has been analyzed with the help of different ratios like GNPA, NNPA, Asset Classification, Provisioning Ratio, Slippage Ratio etc. ANOVA and t-test are used to test the hypothesis.

Table 1: Gross NPA Ratio.

Name of Bank	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India (SBI)	4.25	6.50	6.90	10.91	7.53	**7.22**
Allahabad Bank	5.46	9.76	13.09	15.96	17.55	**12.36**
Andhra Bank	5.31	8.39	12.25	17.09	16.21	**11.85**
Bank of Baroda	3.72	9.99	10.46	12.26	9.61	**9.21**
Bank of India	5.39	13.07	13.22	16.58	15.84	**12.82**
Bank of Maharashtra	6.33	9.34	16.93	19.48	16.40	**13.69**
Canara Bank	3.89	9.40	9.63	11.84	8.83	**8.72**
Central Bank of India	6.09	11.95	17.81	21.48	19.29	**15.32**
Corporation Bank	4.81	9.98	11.70	17.35	15.35	**11.84**
Dena Bank	5.45	9.98	16.27	22.04	21.07	**14.96**
Indian Bank	4.40	6.66	7.47	7.37	7.11	**6.60**
Indian Overseas Bank	8.33	17.40	22.39	25.28	21.97	**19.08**
Oriental Bank of Commerce	5.18	9.57	13.73	17.63	12.66	**11.75**
Punjab and Sind Bank	4.77	6.47	10.46	11.19	11.83	**8.94**
Punjab National Bank	6.55	12.90	12.53	18.38	15.50	**13.17**
Syndicate Bank	3.13	6.70	8.50	11.53	11.37	**8.25**
UCO Bank	6.76	16.09	17.12	24.64	25.00	**17.92**
Union Bank of India	4.96	8.70	11.16	15.73	14.98	**11.11**
United Bank of India	9.49	13.26	15.53	24.10	16.48	**15.77**
Vijaya Bank	2.79	6.64	6.59	6.34	6.58	**5.79**
Mean	**5.35**	**10.14**	**12.69**	**16.36**	**14.56**	**11.82**

(Source: RBI, STRBI, 2015-2019.)

The gross NPA ratios of almost all banks has shown increasing trend except for few banks. The magnitude of NPA is significantly high in case of Central Bank of India, Dena Bank, Indian Overseas Bank, UCO Bank and United Bank of India. Among all average gross NPA ratio of SBI, Indian Bank and Vijaya Bank are under control. The average gross NPA's of these banks have increased from 5.35 % to 14.56% within a period of five years. It clearly indicates that public sector banks are not very much cautious about bad loans also it shows negligence on the part of management.

The Hypothesis is tested by using single factor ANOVA. The result of Hypothesis 1 is as follows –

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1285.41421	19	67.6533792	2.97192567	0.0003604399	1.71802555
Within Groups	1821.13247	80	22.7641559			
Total	3106.54667	99				

The above analysis shows that the p value (0.0003604399) is less than 0.05 ($p<0.05$), hence it resulted into acceptance of alternate hypothesis. It can be interpreted that the mean values of Gross NPA's of public sector banks are significantly different.

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Table 2: Net Non-Performing Advances ratio.

Name of Bank	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India (SBI)	2.12	3.81	3.71	5.73	3.01	**3.68**
Allahabad Bank	3.99	6.76	8.92	8.04	5.22	**6.59**
Andhra Bank	2.93	4.61	7.57	8.48	5.73	**5.86**
Bank of Baroda	1.89	5.06	4.72	5.49	3.33	**4.10**
Bank of India	3.36	7.79	6.9	8.28	5.61	**6.39**
Bank of Maharashtra	4.19	6.35	11.76	11.24	5.52	**7.81**
Canara Bank	2.65	6.42	6.33	7.48	5.37	**5.65**
Central Bank of India	3.61	7.36	10.2	11.1	7.73	**8.00**
Corporation Bank	3.08	6.53	8.33	11.74	5.71	**7.08**
Dena Bank	3.82	6.35	10.66	11.95	8.02	**8.16**
Indian Bank	2.5	4.2	4.39	3.81	3.75	**3.73**
Indian Overseas Bank	5.68	11.89	13.99	15.33	10.81	**11.54**
Oriental Bank of Commerce	3.34	6.7	8.96	10.48	5.93	**7.08**
Punjab and Sind Bank	3.55	4.62	7.51	6.93	7.22	**5.97**
Punjab National Bank	4.06	8.61	7.81	11.24	6.56	**7.66**
Syndicate Bank	1.9	4.48	5.21	6.28	6.16	**4.81**
UCO Bank	4.3	9.09	8.94	13.1	9.72	**9.03**
Union Bank of India	2.71	5.25	6.57	8.42	6.85	**5.96**
United Bank of India	6.22	9.04	10.02	16.49	8.67	**10.09**
Vijaya Bank	1.92	4.8	4.36	4.32	3.08	**3.70**
Mean	**3.39**	**6.49**	**7.84**	**9.30**	**6.20**	**6.64**

(Source: RBI, STRBI, 2015-2019.)

The mean Net NPA ratio of all banks for all years is 6.64% which is moderately high. Though the ratio has shown increasing trend up to 2017-18 but it has felled in the 2018. It shows that public sector banks are making higher provisions against NPA. Among all banks the position of Indian Overseas Bank, UCO Bank and United Bank of India is not comparatively good. Approximately half of the banks net NPA are above the average. SBI, Bank of Baroda, Indian Bank and Vijaya Bank are performing well as compare to other banks.

The ANOVA result of Net NPA of public sector banks for Hypothesis 2 are as follows –

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	434.374291	19	22.8618048	3.5799117	0.00003206947	1.71802555
Within Groups	510.89092	80	6.3861365			
Total	945.265211	99				

The result of ANOVA shows that p value (0.00003206947) is less than 0.05 ($p<0.05$) resulted into acceptance of alternative hypothesis thus it can be said that the mean value of Net NPA of public sector banks are significantly different.

Table 3: Composition of NPAs (Rs. Crore)

Year	Priority Sector		Non-Priority Sector		Public Sector	
	Amount (Rs.)	%	Amount (Rs.)	%	Amount (Rs.)	%
2018-19	197334.47	26.68	542206.53	73.32	13394.66	1.81

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2017-18	187511.00	20.94	708090.00	79.06	17388.00	1.94
2016-17	160941.60	23.50	523790.71	76.50	15466.02	2.26
2015-16	125809.00	23.30	414148.00	76.70	3482.00	0.64
2014-15	96611.00	34.69	181598.49	65.21	258.92	0.09
Mean	**153641.41**	**25.82**	**473966.75**	**74.16**	**9997.92**	**1.35**

(Source: RBI, STRBI, 2015-2019)

Above table shows sectoral composition of NPA's of banks. It can be observed that, all the three sectors are constituting NPA but among all Non-Priority Sector is more prone to the NPA. Banks are more attracted toward this sector as it has higher rate of interest but also has substantial risk involvement. Near about one third NPA's are contributed by this sector.

Table 4: Classification of Assets (%)

Year	Standard Advances	Sub-Standard Advances	Doubtful Advances	Loss Advances	Total Advances (Rs. Crore)
2018-19	88.41	2.21	8.20	1.18	6382460.85
2017-18	85.42	3.49	10.22	0.87	6141698.00
2016-17	88.33	2.95	8.36	0.36	5866374.00
2015-16	90.73	3.44	5.55	0.28	5827499.40
2014-15	95.04	1.88	2.90	0.18	5616717.47
Mean	**89.59**	**2.79**	**7.05**	**0.57**	
CV	**0.04**	**0.26**	**0.40**	**0.75**	

(Source: RBI, STRBI, 2015-2019.)

Asset classification of banks shows that, in previous few years the proportion of standard advances has been decreased. Sub-standard advances have varied less as compare to the doubtful and loss advances. Comparatively there is sharp increase in doubtful advances and also in loss advances. It indicates that sub standard advances are rapidly converting into the doubtful advances. It shows non professional approach toward non-performing asset management.

Table 5: NPA Provisions as percentage of GNPA (Amount in Rs. Crore)

Financial Year	GNPA	NPA Provision	Provisioning Ratio (%)
2018-19	739541.00	230442.91	31.16
2017-18	895601.00	272212.62	30.39
2016-17	684732.00	166329.27	24.29
2015-16	539956.34	153883.97	28.50
2014-15	278468.00	68375.61	24.55

(Source: RBI, STRBI, 2015-2019)

From the above table we can see that there is increasing trend in the ratio of NPA provision. All banks have sufficiently provided for probable non-performing assets. Increase in provisioning ratio have reduced the net NPA of banks in recent years.

Table 6: Slippage Ratio. (Amount in Rs. Crore)

Financial Year	NPA for the year	Standard Assets at the beginning	Slippage Ratio (%)
2018-19	216762.60	5246097.00	4.13
2017-18	488175.38	5181641.00	9.42

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2016-17	327594.27	5287543.06	6.20
2015-16	385962.04	5338249.47	7.23
2014-15	177861.51	4988655.75	3.57

(Source: RBI, STRBI, 2015-2019)

Slippage ratio indicates the rate at which standard (performing) assets are turning into the bad (non performing) assets. Form financial year 2014-15 this ratio was showing increasing trend up to 2017-18. But in the financial year 2018-19 this ratio has decreased to 4.13%. decrease in slippage ratio is good sign for public sector banks. It means good loans are not turning into bad loans at faster rate. This may be due to the increase in provisioning ratio and also due to policy measures taken by the banks.

Table 7: Credit Growth to Gross NPA. (Amount in Rs. Crore)

Financial Year	Gross Advances		Gross NPA	
	Amount	Growth (%)	Amount	Growth (%)
2018-19	6382460.85	3.92	739541.00	-17.43
2017-18	6141698.16	4.69	895601.00	30.80
2016-17	5866373.39	0.76	684732.00	26.81
2015-16	5821951.09	3.65	539956.34	93.90
2014-15	5616717.48	7.68	278468.00	22.53

(Source: RBI, STRBI, 2015-2019)

The gross advances of public sector banks have increased by steady rate with little variation except for the year 2016-17. Whereas gross NPA's have also increased steadily except in the year 2015-16. In the financial year 2015-16 gross NPA's of PSB's have increased very sharply. In the financial year 2018-19 there is negative growth (-17.43), which shows there is decrease in gross NPA's.

Table 8: Net Non-Performing Assets and Net Profit. (in Rs. Million)

Name of Bank		2014-15	2015-16	2016-17	2017-18	2018-19	P-Value	Hypothesis (Accepted / Rejected)
State Bank of India	NNPA	275905.80	558070.20	582773.80	1108547.00	658947.40	**0.00221**	**Rejected**
	NP	131015.72	99506.54	104841.03	-65474.54	8622.30		
Allahabad Bank	NNPA	59788.90	102925.10	134335.10	122291.30	74193.10	**0.00077**	**Rejected**
	NP	6209.04	-7433.08	-3135.16	-46743.68	-83339.61		
Andhra Bank	NNPA	36886.30	60356.50	103548.10	126368.70	90914.00	**0.00069**	**Rejected**
	NP	6384.38	5398.37	1743.32	-34125.28	-27861.27		
Bank of Baroda	NNPA	80694.90	194064.60	180801.80	234826.50	156095.00	**0.00009**	**Rejected**
	NP	33984.35	-53955.37	13831.36	-24318.12	4335.23		

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Bank of India	NNPA	135175.70	279964.00	253050.30	282072.70	191189.60	**0.00001**	**Rejected**
	NP	17089.22	-60892.13	-15583.15	-60437.05	-55469.01		
Bank of Maharashtra	NNPA	41265.70	68320.30	112295.60	96411.90	45599.30	**0.00159**	**Rejected**
	NP	4506.92	1006.85	13725.08	-11456.48	-47838.76		
Canara Bank	NNPA	87400.90	208329.10	216489.80	285424.00	229551.10	**0.00002**	**Rejected**
	NP	27026.24	-28128.23	11219.22	-42222.38	3470.15		
Central Bank of India	NNPA	68070.00	132420.00	142180.00	173778.70	113332.40	**0.00003**	**Rejected**
	NP	6064.48	-14181.90	-24390.98	-51048.97	-56414.80		
Corporation Bank	NNPA	44649.80	91601.40	116921.80	140770.20	69266.40	**0.00107**	**Rejected**
	NP	5842.56	-5064.80	5612.06	-40539.43	-63329.83		
Dena Bank	NNPA	30143.00	52304.70	77351.20	78387.80	41669.70	**0.00149**	**Rejected**
	NP	2654.82	-9353.19	-8636.25	-19231.53	-63386.82		
Indian Bank	NNPA	31469.50	54194.00	56065.70	59595.60	67931.10	**0.00001**	**Rejected**
	NP	10051.74	7113.83	14056.77	12589.93	3219.52		
Indian Overseas Bank	NNPA	98133.30	192125.80	197493.20	203996.60	143683.00	**0.000007**	**Rejected**
	NP	-4543.25	-28973.28	-34167.39	-62994.91	-37378.81		
Oriental Bank of Commerce	NNPA	48162.40	99321.50	141178.30	142828.80	94396.20	**0.00040**	**Rejected**
	NP	4970.75	1560.78	-10940.71	-58717.44	549.94		
Punjab and Sind Bank	NNPA	22660.00	29494.70	43750.80	46078.70	49942.30	**0.00014**	**Rejected**
	NP	1213.48	3359.72	2010.84	-7437.98	-5434.78		

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Punjab National Bank	NNPA	153965.00	354225.60	327021.00	486842.90	300376.60	0.00016	Rejected
	NP	30615.84	-39743.96	13248.02	-122828.20	-99754.86		
Syndicate Bank	NNPA	38436.50	90148.70	104109.80	132394.60	126277.30	0.00004	Rejected
	NP	15229.31	-16434.86	3589.49	-32228.37	-25882.95		
UCO Bank	NNPA	63305.80	114435.90	107033.90	140820.70	96499.20	0.000, 01	Rejected
	NP	11378.00	-27992.57	-18506.67	-44363.69	-43210.83		
Union Bank of India	NNPA	69189.70	140259.40	188321.00	243263.10	203324.20	0.00020	Rejected
	NP	17816.40	13516.02	5552.13	-52473.69	-29474.48		
United Bank of India	NNPA	40813.80	61107.10	65918.50	103163.00	57856.10	0.00049	Rejected
	NP	2559.92	-2819.59	2195.06	-14544.46	-23159.25		
Vijaya Bank	NNPA	16597.10	42768.20	41181.60	250212.40	40183.70	0.12185	Accepted
	NP	4394.09	3817.95	7504.85	7270.23	-24341.13		

The result of Hypothesis 3 are as follows –

The test result shows that 'p' values of all the banks except for Vijay Bank (0.12185) is less than the 0.05 ($p<0.05$) Since $p <0.05$ it can be said that the net profit and Net NPA are associated significantly i.e. non-performing assets are affecting banks profitability. Increase in net NPA is resulting into the decrease in net profit of banks.

Observations:

- The asset quality of public sector banks has been deteriorated at higher rate between 2014-15 to 2017-18. The GNPA as well as NNPA ratio of these banks are significantly different. It shows that asset quality management of few banks are not at par. Hence positive efforts may be needed to control non-performing loans.
- The proportion of doubtful advances and loss advances has shown increasing trend in the recent years. The study shows that the sub-standard advances are turning into doubtful advances at faster rate. The rate at which doubtful advances converting into the loss advances also at alarming stage.
- Non-priority sector is contributing more NPA's in overall. More control is required in case of Non-priority sector lending and its NPA management.

- The profitability of public sector banks is mainly affected by rising level of non-performing assets. It is causing the operating performance of these banks. Banks are required to make high provision against NAP which also contributing toward declining profitability.
- It is observed that the slippage ratio of banks was showing increasing trend initially but in the year 2018-19 it decreased sharply. This may be on account of higher NPA provision as well as due to actions initiated by banks under IBC 2016. The growth in NPA has also shown negative trend in recent year. It is good sign for public sector banks.

Suggestions and Conclusion:

Banks have to build effective strategies to tackle the issue of NPA by taking corrective actions on time. Public sector banks are more involved into the credit allocation for the economy building activities. While providing credit to different sector they should be more alert on creditworthiness of borrowers. Post credit performance or review is required periodically to understand effective use of credit. Efficient credit management system may play an important role into this. Banks may also identify the reasons behind bad loans with the help of proper asset quality review. Most of the banks attracted toward non priority sector lending as it provides higher returns. Public sector banks are also not exceptional to this. Since this sector contribute more amount of NPA so keen observation and collective efforts are required to reduce bad loans. RBI have provided different recovery channels for NPA. Banks may use it at its fullest to recover advances from borrowers. Another way available to banks is to initiate action on default corporate borrowers under Insolvency and Bankruptcy Code (IBC) 2016.

The financial health of these public sector undertaking is also crucial one as they are considered as the main pillar of financial system. Operational and financial soundness of banking sector is very much depending upon how efficiently and professionally advances are managed. A regular asset quality review will be helpful for the banks to understand causes behind asset becoming non performing. The Government is playing active role in management of bad loans of public sector banks by infusing additional capital and different policy measures. There should be stringent and flexible prudent polices are required by the apex authorities to curb the NPA. The active role and action-oriented strategies by individual bank, RBI and government may bring positive results to tackle the issue of rising NPA. Finally, positive approach of borrowers toward prompt payment of loans will make the task easy for these institutions.

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ISSN: 2278-4632
Vol-10 Issue-11 No.02 November 2020

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Journal Details

Journal Title (in English Language)	Juni Khyat
Journal Title (in Regional Language)	जुनी ख्यात
Publication Language	English , Hindi
Publisher	Maru Bhumi Shodh Sansthan
ISSN	2278-4632
E-ISSN	NA
Discipline	Social Science
Subject	Social Sciences (all)
Focus Subject	Cultural Studies
UGC-CARE coverage years	from June-2019 to Present