



Current Scenario of NPAs on the Profitability of Banks a Comparative Study Public Banks in India

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Abstract. The banking business comprises a paramount component of the financial services sector. then the banks and financial institutions play a vital position and crucial role in economic planning such as two faced down of specific goals and assign particular amount of finance that comprise the economic policy of the government. The financial system is necessary for the growth of economy. The Assets quality ratios to using the financial performance public sector banks supervision criterion of banking sector is a significant and significant improvement in public sector bank in India. The tools used this analysis be CAMEL Rating System in Asset Quality parameters. The public sector banks financial performance in COVID 19 situation facing lot of NPAs issues in present economy. The composite Assets quality rank is Bank of Baroda has occupied the top position with least average. IDBI Bank has availed the last position with an average.

Key Words: Non-performing Assets, Ratios, Public Banks, Rank, Banking system.

JEL: G2, G21, G29, G29

1. Introduction

The Indian banking system emerged relatively safe and sound from the Global Financial Crisis. The ratio is calculated by separating total investments by total assets of the bank. This ratio measures the effectiveness and ability of the bank's management in converting the deposits available with the bank (excluding other funds like equity capital, etc.) into high retribution advances. Total Deposits take in demand deposits, saving deposits, term deposits and deposits of other banks. This ratio measures the efficiency and ability of the bank's management in converts the deposits available with the bank (excluding other funds like equity capital, etc.) into high earnings advances. Total Deposits include demand deposits, saving deposits, term deposits as well as deposits of other banks. This ratio measures the efficiency and capability of the bank's management in converting the deposits available with the bank (excluding other funds like equity capital, etc.) into high earnings advances. Total Deposits include demand deposits, saving deposits, term deposits and deposits of erstwhile banks. These ratios instrument the efficiency and ability of the bank's management in converting the deposits available with the bank (excluding other funds like equity capital, etc.) into high earnings advances. An effort has been made in this study to analyse the financial performance of public and private sector banks in India. The potential contribution to bank supervision of a model designed to forecast which banks will have their supervisory ratings downgraded in future periods.

2. Review of Literature

A study entitled (2013). "Banking Sector Reforms and NPA a study of Indian Commercial Banks by Meenakshi Rajeev H P Mahesh, The majority issue of non-performing assets (NPA) the root cause of the recent global financial crisis drawing the attention of the policy makers and researchers. These exploratory papers examine the trends of NPAs in the various dimensions and explain. The papers also discuss the role of Joint Liability Groups and Self Help Groups loan recovery rate.¹ A study on (2019). "The Origins of India's NPA Crisis" Anusha Chari, Lakshitha Jain, Nirupama Kulkarni, The progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational effectiveness of the various sectors, of which banking sector plays a very vital role. Banking sector helps in encouragement of capital formation, innovation and monetization in addition to facilitation of monetary policy. This summarise the average CAR using margin. The reported coefficients are the average value of dependent variable that is CAR in percentage points. Rising RF implied the dummy indicating increase in forbearance in set all four specifications are run separately. Standard error cluster at the bank level.² A study entitled (2012). "A Comparison of Financial Performance of Commercial Banks: A Case Study of Nepal" by Suvita Jha and Xiaofeng Hui, The objective of this study was to measure up to the financial performance of different ownership structured commercial banks in Nepal based on their financial

characteristics and identify the determinants of performance exposed by the financial ratios, which were based on CAMEL Model. The estimation results description that return on assets was significantly influenced by capital adequacy ratio, interest expenses to total loan and net interest margin, while capital adequacy ratio had considerable effect on return on equity.¹ The paper entitled (2014). “A Critical Analysis of Financial Performance of Agricultural Development Bank (Adb, Ghana)” by Gilbert Sebe-Yeboah, Charles Mensah, The researchers which is similar to the CAMELS’ rating. Financial ratio analysis is employed in the examination. It was apparent from the analysis that ADB’s focus on agricultural financing is diminishing since a sector analysis of loans and advances indicates that the agriculture sector lost its first position to the services sector which recorded 38% compare with agriculture 29% in 2012. The bank’s liquidity shows a downward trend and slipped further down in 2010 confirming the Ghana Banking Survey (2011) assessment that the bank is illiquid.³ A study entitled (2013). “An Analysis of Indian Public Sector Banks Using CAMEL Approach” by CA. Ruchi Gupta, The evolution of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational effectiveness of the various sectors, of which banking sector plays a very vital role. Banking sector helps in prompt of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is essential to carefully evaluate and analyse the performance of banks to ensure a healthy financial system and an efficient economy. The present study attempt to evaluate the performance of public sector banks in India using CAMEL approach for a five year period from 2009-13.⁴ The paper entitled (2010). “Analyzing Financial Performance of Commercial Banks In India Application of CAMEL Model” by Prof. Dr. Mohi-ud-Din Sangmi, Dr. Tabassum Nazir, This paper examined the Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. This assessment has been done by using CAMEL Parameters, the latest model of financial analysis. All the way through this model, it is highlighted that the position of the banks under study is sound and satisfactory as far as their capital adequacy, asset quality, Management capability and liquidity is concerned. The above literature present an overview of International Listing, Indian banking industry is integrating with world economy an assessment of banks performance on internationally accepted model is useful to investors, customers, bankers, policy makers and economy.

3. Design of the Study

Statement of the Problem: Banking sector is a service and has a major effect on the every economy in India banking systems is financially sound due to good banking reforms like interest rate, monitoring policy etc. More than a few tools are there to study performance to the bank performance; the CAMEL Asset Quality model is one of the tools used to analyze the financial performance of the bank. Need of the study: CAMEL Model has five parameters and Asset Quality one of the parameters have unique quality to analyze the financial performance of banks. In this CAMEL approach can help to be familiar with the favorably and unfavorable situation of financial position in banks and this way can put the rating of banks and its helpful to the depositors and also equally significant to the shareholders, employee and whole economy as well. For this purpose, in this study have engaged to analyze the financial performance using camel approach. Objectives of the study: The present study has the following objectives.

1. To analyse the financial performance of Public Sector Banks using CAMEL model Asset Quality parameters during the study period.
2. To evaluate the ranks among Public Sector banks on the basis of overall Assets Quality in CAMEL rating model during the study period.

Sample Selection of the study: In this study entirely 19 domestic banks in India. It includes public sector banks. The study was restricted to the Domestic Market Capitalization of public sector banks. The Domestic market capitalization of banks data were collected on 10/03/2021. The follow criteria were considered for selecting the sample

1. Among the 19 banks, only top 7 banks were selected on the basis of Domestic Market capitalization in and private sector banks.
2. The sample percentage of public sector is 36 percent i.e. 7 banks out of 19 banks were used to analyse the financial performance of banking industry in India. The sample selection is given the below table

TABLE 1. The Selected Sample based on Domestic Market Capitalization of Banks as on 10/03/2021

S. No.	Banks in India	Market Capitalization Value (Rs. in Cr.)
1.	State Bank of India	288,819.53
2.	Bank of Baroda	48,728.81
3.	Punjab National Bank	39,566.13
4.	Bank of India	18,650.22
5.	Canara Bank	18,164.37
6.	Union Bank	13,718.62
7.	IDBI Bank	12.647.12

Sources and Collection of the Data: The present study was mainly based on secondary data the data be collected from www.rbi.org.in, banking statistics reports and the annual reports of the respective banks through www.moneycontrol.com, proweess database. The erstwhile sources like various Banking books, journal and websites were used.

Period of the Study: The present revise investigates the financial performance of the Indian Public Sector banks in India. The data were representative and financial sector of Indian Economy during the period from 01st April 2012 to 31st March 2021. Tools Used For the Analysis: The tools used for the analysis CAMEL Model Assets Quality ratios were CAMEL Rating System,

CAMEL Rating System in Assets Quality: This model which is the modern innovation in the area of financial performance evaluation of banks. This system was implementing in India since 1995 at the suggestion of Mr. Padmanabhan, Governor RBI. This model has five parameter.

i. **Assets Quality**

a) **Net NPA to Net Advances Ratio**

$$\text{Net NPAs} = \frac{\text{Net NPAs}}{\text{Total Loan}}$$

b) **Total Investments to Total Assets Ratio**

$$\text{Total Investment to Total Assets Ratio} = \frac{\text{Total Investments}}{\text{Total Assets}}$$

c) **Net NPAs to Total Asset Ratio**

$$\text{Net NPAs to Total Assets} = \frac{\text{Net NPAs}}{\text{Total Assets}}$$

d) **Percentage Change in Net NPAs Ratio**

$$\text{Percentage Change in Net NPAs} = \frac{\text{Net NPAs in current year}}{\text{Net NPAs in the previous year}}$$

CAMEL Rating System in Assets Quality

Limitations of the Study: The study suffers from following limitations.

- The study was restricted to only 7 like Public Sector banks during the study period from 01st April 2012 to 31st March 2022.
- This study partial to top 7 Public sector banks out of 19 banks public sector banks based on the market capitalization during the study period.
- The study was limited to Public sector banks only.
- The studies made use of CAMEL Model only focus in ratios.
- The data is taken from the rbi.org.in, yahoofinance.com, moneycontrol.com, proweess database.

4. Analysis of Assets Quality

TABLE 2. Results of Composite Assets Quality of Selected Sample Private and Public Sector Banks during the study periods from 01.04.2012 to 31.03.2021

Name of the Public Sector Banks	Net NPAs to Net Advances		Total Investments to Total Assets		Net NPAs To Total Assets		Percentage Change in Net NPAs (%)		Group Rank	
	Avg.	Rank	Avg.	Rank	Avg.	Rank	Avg.	Rank	Avg.	Rank
State Bank of India	2.04	7	30.44	7	0.79	3	89.23	1	4.5	5
Bank of Baroda	0.92	2	26.94	2	0.42	2	96.59	3	2.25	1
Punjab National Bank	0.82	1	29.53	6	0.35	1	110.89	5	3.25	2
Canara Bank	1.45	5	28.71	4	0.83	5	90.74	2	4	3
Bank of India	1.64	6	25.44	1	0.96	7	101.11	4	4.5	5
Union Bank of India	1.38	4	28.307	3	0.80	4	124.113	6	4.25	4
IDBI Bank Limited	1.37	3	29.36	5	0.83	6	164.729	7	5.25	7

Sources: collected from PROWESS DATABASE computed from MS Excel 2007

5. Findings of the Study

The follow are the important findings of the study.

- Net NPAs to Net Advances Punjab National Bank was at the top position. State Bank of India was at the last position.
- Total Investment to Total Assets Bank of India was at the first position. State Bank of India of was at the last position.
- Punjab National Bank Net NPAs to Total Assets at the top position. Bank of India was at the very last position.
- Percentage change in NPAs State Bank of India was at the first position. IDBI Bank Limited stood at last position.
- Assets quality Bank of Baroda was at the top position. The largest private sector banks. IDBI Bank Limited availed the bottom most position due to its poor performance in all sub parameters of asset quality.
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6. Suggestions of the Study

On the basis of the above findings of the study, important suggestions are given below.

- The NPAs of State Bank of India are high. In case of Public Sector Banks the NPAs are higher than Private Sector Banks.
- There is a require for the RBI to fix special norm like CAR, to reduce the NPAs. The Private Sector Banks need to improve their total investment against the total assets.
- Policy makers could progress the rules and regulations for Reserve Bank of India and has to follow the other bankers to grow public sector banks
- In India, banking industry is playing vital role in financial sector. Banking Industry also depends on the part of economic fundamentals. While preparing the policies, the policy makers should give attention to on the banking industry and prepare better policy to the banks.

7. Conclusion

Net NPAs are gross NPAs net of provision on NPAs and interest in suspense account. Punjab National Bank is seen to have the first position with a highest average of percent. State Bank of India has achieved the lowest position with least average. this also affects its profitability adversely. Bank of India is seen to have the first position with a highest average State Bank of India has achieved the lowest position with least average. Total Advances also include the receivables. Punjab National Bank has occupied the top position with least average of Bank of India has availed the last position with an average. Total Advances also include the receivables. Punjab National Bank has occupied the top position with least average Bank of India has availed the last position with an average. Total Advances also include the receivables. Punjab National Bank has occupied the top position with least average Bank of India has availed the last position with an average. Total Advances also include the receivables. Punjab National Bank has occupied the top position with least average Bank of India has availed the last position with an average. The composite Assets quality rank is Bank of Baroda has occupied the top position with least average. IDBI Bank has availed the last position with an average.

8. Scope for the Further Research

The following are point towards further research

- The further research may include more public and private sectors each from the Indian Banking Industry.
- The additional study may consist of objectives with references to foreign banks
- The more study, researcher may use the tools like CACS (Capital Adequacy, Asset Quality, complaints, systems and controls), DEA (Data Envelopment Analysis)
- The further, researchers may include foreign banks for analyse the financial performance for further study.
- The further research may develop the study period.

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