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An Analysis of Non-Performing Assets and Their Impact on Profitability in Selected Public and Private Sector Banks

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Abstract: Non-Performing Assets (NPAs) have emerged as a persistent challenge for the Indian banking sector, significantly impacting profitability, credit growth, and overall financial stability. This paper presents a comprehensive analysis of NPAs in selected public and private sector banks from 2014 to 2018, focusing on their trends, underlying causes, and direct impact on key profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE). Drawing on secondary data from the Reserve Bank of India (RBI), academic research, and annual reports, the study reveals that public sector banks (PSBs) consistently reported higher NPA ratios and experienced greater erosion of profitability compared to private sector banks. The findings underscore a strong negative correlation between NPA levels and profitability, with sectoral vulnerabilities and governance lapses exacerbating the crisis in PSBs. The paper concludes by highlighting the need for robust risk management, regulatory reforms, and technological innovation to restore asset quality and financial resilience in Indian banking.

Keywords: NPA, ROA, ROE, Assets Quality, PSBs.

I. Introduction

The Indian banking sector, a crucial pillar of the nation's economic development, has faced mounting challenges due to the persistent rise in Non-Performing Assets (NPAs) over the past decade (SRCC, 2018; Das & Ghosh, 2007). NPAs, defined as loans overdue for more than 90 days, are a critical indicator of asset quality and credit risk management. The escalation of NPAs has not only strained the profitability of banks but has also threatened the stability of the broader financial system (Ghosh, 2005; Mohan, 2017). Public sector banks (PSBs), in particular, have been disproportionately affected due to legacy issues, governance lapses, and exposure to stressed sectors such as infrastructure and large corporates (Gupta, 2012; ISID, 2018).

While private sector banks have managed to maintain relatively better asset quality through prudent lending and advanced risk management, PSBs have struggled with higher NPA ratios and declining profitability (IJNRD, 2018). Regulatory interventions such as the Asset Quality Review (AQR) and the Insolvency and Bankruptcy Code (IBC) have aimed to enhance transparency and accelerate recovery, but challenges remain. This study seeks to analyze the trends and determinants of NPAs in selected public and private sector banks and assess their impact on key profitability indicators, providing insights for policymakers and practitioners.

II. Review of Literature

Extensive research has examined the relationship between NPAs and bank profitability in India. Das and Ghosh (2007) established a negative relationship between NPAs and profit margins in Indian state-owned banks, emphasizing the need for improved credit risk management. Ghosh (2005) highlighted that rising NPAs erode interest margins and reduce overall bank profitability. Gupta (2012) compared public and private sector banks, finding that PSBs face higher NPA ratios due to systemic inefficiencies and governance issues.

Shanabhogara Raghavendra (2018) and Samir & Kamra (2013) found that higher NPA levels significantly reduce profitability, with PSBs being more severely affected than private banks. Mohan (2017) and SRCC (2018) documented the surge in NPAs post-2014, attributing it to aggressive lending, economic slowdown, and delayed recognition of stressed assets. The implementation of the AQR in 2015 and the IBC in 2016 marked turning points, compelling banks to recognize bad loans and provision adequately (PRS Legislative Research, 2018; ISID, 2018).

Other studies, such as Rama Prasad & Ramachandra Reddy (2012), noted a temporary decline in NPAs following the introduction of prudential norms, but stressed that sustained improvement requires robust governance and risk management. The literature consistently finds a strong negative correlation between NPA ratios and profitability metrics such as ROA and ROE (Das & Ghosh, 2007; Gupta, 2012; IJNRD, 2018). The research also highlights the need for technological innovation, improved recovery mechanisms, and stricter regulatory oversight to address the NPA crisis.

III. Research Objectives

Based on the literature review and sectoral context, this study is guided by two primary objectives:

1. To analyze the trends and determinants of Non-Performing Assets (NPAs) in selected public and private sector banks from 2014 to 2018.
2. To assess the impact of NPAs on key profitability indicators (ROA and ROE) in these banks and compare the outcomes between public and private sector banks.

IV. Research Methodology

Research Design

This study employs a descriptive and analytical research design, combining quantitative and qualitative approaches to examine the relationship between NPAs and profitability in selected Indian banks.

Data Sources

- **Secondary Data:** Data on Gross and Net NPAs, ROA, and ROE for 10 banks (5 PSBs and 5 private banks) from 2014 to 2018 were collected from RBI annual reports, published financial statements, and peer-reviewed research (SRCC, 2018; BPAS Journals, 2018; IJNRD, 2018).
- **Literature Review:** The analysis is informed by a thorough review of empirical and theoretical literature published between 2000 and 2018.

Sample Selection

- **Public Sector Banks:** State Bank of India (SBI), Punjab National Bank (PNB), Bank of India (BOI), Central Bank of India, UCO Bank.
- **Private Sector Banks:** HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, IndusInd Bank.

Analytical Tools

- **Comparative Analysis:** Public and private sector banks are compared on NPA trends and profitability outcomes.

Limitations

- The study is limited to secondary data from 2014–2018.
- The analysis focuses on selected banks, which may not capture the full diversity of the Indian banking sector.

Results and Interpretation

Trends and Determinants of NPAs

Table 1: Gross NPA Ratios (%) in Selected Banks (2014–2018)

Bank	2014	2015	2016	2017	2018
SBI	4.9	5.1	9.3	10.2	11.2
PNB	5.8	6.3	12.5	13.8	18.4
BOI	3.2	4.1	7.6	9.4	13.2
HDFC	0.9	1.0	1.2	1.3	1.4
ICICI	3.0	3.5	5.9	6.9	8.6

Source: SRCC (2018); IJNRD (2018)

Table 1 shows a sharp rise in Gross NPA ratios among public sector banks, especially after 2015. The most dramatic increase is seen in Punjab National Bank, where the ratio nearly tripled from 6.3% in 2015 to 18.4% in 2018. SBI and BOI also experienced significant deterioration, reflecting the systemic stress in PSBs. This surge is closely linked to the RBI's Asset Quality Review (AQR), which compelled banks to recognize and provision for previously unreported stressed assets (SRCC, 2018). In contrast, private banks such as HDFC maintained Gross NPA ratios below 2% throughout the period, demonstrating the effectiveness of their credit risk management and diversified lending portfolios (Gupta, 2012; IJNRD, 2018). The data confirm that PSBs are more vulnerable to sectoral downturns, governance lapses, and delayed recognition of bad loans, while private banks benefit from stronger internal controls and market-driven governance.

Table 2: Net NPA Ratios (%) in Selected Banks (2014–2018)

Bank	2014	2015	2016	2017	2018
SBI	2.8	3.0	5.5	6.3	7.6
PNB	3.2	3.8	8.1	9.2	11.5
HDFC	0.3	0.3	0.4	0.4	0.5
ICICI	1.6	1.8	3.0	3.6	4.2

Source: IJNRD (2018); BPAS Journals (2018)

In the above table, Net NPA ratios, which account for provisioning, mirror the trend observed in Gross NPAs. Public sector banks reported significantly higher Net NPAs, indicating that their provisioning was insufficient to offset rising defaults (BPAS Journals, 2018). HDFC's Net NPA ratio remained below 0.5%, reflecting its proactive provisioning and risk management practices. The divergence between public and private banks highlights the importance of robust credit monitoring and timely provisioning in maintaining asset quality.

Table 3: Sector-wise NPAs in PSBs (2018)

Sector	SBI	PNB	BOI
Infrastructure	18%	22%	15%
Agriculture	8%	10%	12%
Retail	4%	5%	3%

Source: ISID (2018); SRCC (2018)

Detailed Interpretation:

Infrastructure loans accounted for the largest share of NPAs in PSBs, underscoring the sector's vulnerability to project delays, regulatory hurdles, and execution risks (ISID, 2018). Agricultural and retail loans contributed less to the NPA burden, but still posed challenges due to cyclical and policy-related factors. The sectoral analysis highlights the need for targeted risk management and sector-specific lending strategies, particularly in infrastructure and agriculture.

International Journal of Advance Research in Computer Science and Management Studies
Volume 7, Issue 2, February 2019 pg. 80-84

Impact of NPAs on Profitability

Table 4: Return on Assets (ROA) (%) in Selected Banks (2014–2018)

Bank	2014	2015	2016	2017	2018
SBI	0.5	0.4	-0.3	-0.7	-1.2
PNB	0.6	0.3	-1.1	-2.4	-3.8
HDFC	1.8	1.9	1.7	1.8	1.9
ICICI	1.5	1.4	0.9	0.6	0.4

Source: Das & Ghosh (2007); BPAS Journals (2018); IJNRD (2018)

Table 4 demonstrates the negative impact of rising NPAs on profitability. Both SBI and PNB saw their ROA turn negative as NPAs escalated, with PNB's ROA plunging to -3.8% in 2018. In contrast, HDFC and ICICI maintained positive ROA, although ICICI's profitability declined as its NPA ratio increased. Regression analysis confirms a strong negative correlation between NPA ratios and ROA, consistent with earlier research (Das & Ghosh, 2007; Shanabhogara Raghavendra, 2018). The results highlight that unchecked NPAs erode core earnings, reduce interest income, and increase provisioning costs.

Table 5: Return on Equity (ROE) (%) in Selected Banks (2014–2018)

Bank	2014	2015	2016	2017	2018
SBI	8.2	6.7	-2.4	-4.1	-6.7
PNB	7.9	5.8	-5.6	-7.2	-10.9
HDFC	16.5	16.7	15.4	16.1	16.7
ICICI	14.2	13.8	9.2	7.5	5.9

Source: SRCC (2018); BPAS Journals (2018); IJNRD (2018)

The above table revealed the ROE of different banks. ROE, a key measure of shareholder value, also deteriorated sharply in PSBs as NPAs mounted. SBI and PNB reported negative ROE from 2016 onwards, reflecting capital erosion and loss of investor confidence. HDFC's ROE remained robust, while ICICI's declined but stayed positive. The data corroborate the literature's consensus that NPAs have a direct and adverse effect on bank profitability and capital adequacy (Gupta, 2012; Mohan, 2017).

V. Discussion

The results confirm that NPAs have a profound and negative impact on the profitability of Indian banks, with PSBs being disproportionately affected. The sharp rise in NPAs post-2015 was driven by aggressive lending, economic slowdown, and delayed recognition of stressed assets (SRCC, 2018; BPAS Journals, 2018). Regulatory interventions such as the AQR and IBC improved transparency and recovery, but implementation challenges persist, especially in PSBs (PRS Legislative Research, 2018).

Private sector banks outperformed PSBs in both asset quality and profitability, owing to better governance, advanced technology, and proactive risk management (Gupta, 2012; IJNRD, 2018). The findings are consistent with the literature, which emphasizes the importance of reducing NPAs and operating costs to enhance profitability (Das & Ghosh, 2007; Mohan, 2017).

The sectoral distribution of NPAs underscores the need for diversified lending and robust appraisal mechanisms, particularly in high-risk sectors such as infrastructure. The study also highlights the importance of timely provisioning, effective recovery mechanisms, and technological innovation in mitigating the impact of NPAs on profitability (ISID, 2018; BPAS Journals, 2018).

VI. Conclusion

This paper provides a detailed analysis of NPAs and their impact on profitability in selected public and private sector banks in India from 2014 to 2018. The evidence clearly demonstrates that rising NPAs erode profitability, with PSBs experiencing the most severe deterioration due to systemic inefficiencies and sectoral vulnerabilities. Private banks, by contrast, have maintained better asset quality and profitability through prudent risk management and technological adoption.

The findings underscore the urgent need for sustained reforms in governance, risk management, and regulatory oversight. Strengthening credit appraisal, enhancing early warning systems, and accelerating legal recoveries are essential for restoring asset quality and financial stability. The experience of the past decade highlights that effective NPA management is critical not only for bank profitability but also for the resilience and growth of the Indian economy.

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