



# “An Analysis on Asset Quality and its Impact on Profitability of Indian Banking- Selected Private Sector Banks”

Nirali J Kantharia

**Abstract:** *The banking is a key of Indian economy. Playing vital role in regulation and monitoring financial activities and give huge contribution for economic growth. Indian banking system play a crucial role in giving credit facilities and loan to public and accepting deposits. In this process banks are prone to risk of loss due to the uncertainties' of counterparty. This loss of assets and non-payment of loan rise in Non-Performing Asset, this may impact on profitability and quality assets in financial statements of banking system. This study analysing status of asset quality of Indian banking. This study shows the comparison between selected private sector banks in relation to Non-Performing Assets. For this study data were collected from secondary sources and for period of three year 2017-2019. Finding different ratios for analysing asset quality. The study found NPA comparison of major private banks and the increasing trends in NPAs shown poor assets quality in private sector banks.*

**Keywords:** Analysis, Indian bank, Non-Performing Asset, Ratios, Assets Quality.

## **Introduction:**

A banks performance depends on many factors such as their financial performance or its profit earned or their profitability etc. Profit earned and profitability both are completely two different aspects, profit earned is a short-term view while profitability is more of long term prospective in view of a bank. The banking system is blood of economy, which has gained significance in regulating financial and economic aspects of the economy. Banks play both the role manufacturing of money and also accepting the deposits from public. Banks give credit facilities to those who needs fund for short-term or long-term. Banks also give opportunities for investment to those who have surplus fund and give the advantage of earn high rate of return.

Banks give credit to needy people and it is first step to take for economic development. Banks also contributes in generation of employment opportunities by lending money to different sectors of economy like agriculture, MSMEs, industrial sector, manufacturer, self-employed.

Loans give to other is asset for banks. Banks give loan to different people and group of people. When the banks are not able to recover that given loans from public and not getting any interest on such loan within 90 days of due date then that loan become Non-performing assets. There are different phases of bad loan which are following.

1. **Standard Assets:** A Standard asset is one which are generating regular income to banks.
2. **Sub Standard Assets:** An asset which is overdue for a period of more than 90 days but less than 12 months
3. **Doubtful Assets:** An asset which is overdue for a period of more than 12 months.
4. **Loss of Assets:** Assets which are doubtful and considered as non-recoverable by banks, internal or external auditor or central bank inspectors.

## **Review of literature**

**Chilukuri SS, Srinivas Rao K and Madhav VV (2016)** “*An Empirical Analysis on Asset Quality of Indian Banking Industry- Non-Performing Assets to Advances*” this study observed that there is tremendous increase of advances over the 12 years period of study, nevertheless the decline trends in NPAs shown improvement in assets quality of scheduled commercial banks of India. To reduce the intensity of NPAs banks should develop efficient management system and should employ the specialized and trained staff. Frequent review of statements of outstanding advance, defaulters, identifying the reasons for rise in NPAs, timely action can trim down the rise in NPAs and can improve the asset Quality of banking industry.

**Arpita Ghosh (2014)** in her Research report title “*Asset Quality of banks: Evidence from India*” found that if NPAs in banks are not handled effectively and in time, it can lead to loss of confidence on the performance of banks. Best way to handle NPAs in banks is to take preventive measures particularly at the credit appraisal stages. Prevention can also be in the form of early detection, early rectification or prompt restructuring of the stressed assets. Nevertheless, it is important for the banks to implement the micro-prudential measure and for the regulatory authorities to implement macro-prudential measures to keep the NPAs in check.

**Peter Kasavica and Zoran Jovic(2015)** “*Impact of Asset Quality on the Profitability of Commercial Bank*” it was found that maturity affects the profitability margins. As for the client rating carries a higher cost, therefore a higher level of loans under less favourable rating costs more and reduces profits. A higher level of NPAs increase the provisions towards the NBS and reduces the level of profitability.

## **Statement of the problem**

The primary objective of banks is accepting deposits and giving loan or credit facilities to general public, large-medium-small companies, partnership firms, joint stock companies, individual etc. Loan to public is asset for banks. Problem arising when that loan are not repayable within 90 days of due date. This loan become loss of asset for banks. This asset called NPAs (Non-Performing Asset). The issue of Non-performing Assets has been discussed at length for the financial system all over the world. When the bank is not able to recover loan given and not getting interest on it then the flow of fund is reduced and affect the whole banking system. The problem of NPAs is not only affect the banking system but also reflect the country growth and wealth. Banks reputation and prestige goes down, investor loss their interest in that banks. The present study analysing assets quality of selected private banks and its impact on profitability.

## **Objective**

1. To know the level of Non-Performing Assets of Selected Private Sector banks.
2. To give suggestions to regulators and policymaker of banks.
3. To find the impact of NPAs in profitability of banks.

## **Limitation of Study: -**

1. The study is based on secondary data collected from the website named money control. So, the quality of study depends upon accuracy, reliability and quality of that data.
2. The study is limited to cover for 3 years data only, years from 2017-2019. Above year results may different which not mention in this study.
3. The study considered only 3 major private sector banks. Study does not consider other banks like public sector bank, co-operative banks, foreign banks.

## Accounting tools and techniques

For this study used Non-Performing Assets ratios.

The Non-Performing Assets ratios used were Gross NPA Ratio, Net NPA Ratio,

**Gross NPA**= Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on balance sheet date. It includes all non-standard assets like sub-standard, doubtful and loss of assets.

**Net NPAs** = *Gross NPAs – Provisions.*

## Methodology of study

Sample size:

The sample selected for the study was random sampling. 3 major private sector banks were selected for study which listed in BSE. The major 3 banks are HDFC bank, ICICI bank and Axis bank.

Data collection:

For this analysis, secondary data has been used. The data collected from the official website of HDFC bank, ICICI bank and Axis bank and their financial reports. 3 banks were selected for the study. The data are collected for 3 year 2017-2019.

## Data analysis and Interpretation

NPAs ratios:

**Table 1- Gross NPA ratios (%)**

Year	HDFC Bank	ICICI Bank	Yes Bank
2017	1.05	7.89	1.52
2018	1.30	8.84	1.28
2019	1.36	6.70	3.22

## Interpretation:

In year 2017, the gross NPAs of HDFC bank was 1.05%. it was increase in year 2018 to 1.30%, then in 2019 it increases again to 1.36%. ICICI bank has highest gross NPA among them. In 2017 ICICI bank has 7.89%, in 2018 is was 8.84%, but in 2019 the gross NPA of ICICI bank decline to 6.70%. Yes bank gross NPA in 2017 was 1.52%. it was reduced in 2018 to 1.28% but again in 2019 it was increased in huge to 3.22%. Among them ICICI bank has highest gross NPA. Then Yes bank and last HDFC bank.

Gross NPA of ICICI Bank and Yes bank has higher rang. These higher Gross NPA numbers are mainly because of their corporate loan book. The default risk comes hand in hand with the higher percentage of corporate loans than retail loans.

Asset quality of ICICI bank is improved with decline in gross NPA from 8.84% to 6.70% on account of recoveries from various account.

Thus, HDFC bank is with the best quality portfolio in industry, demonstrating its healthy asset quality.

**Table 2: - Net NPA Ratios (%)**

Year	HDFC Bank	ICICI Bank	Yes Bank
2017	0.33	4.89	0.81
2018	0.40	4.77	0.64
2019	0.39	2.06	1.86

**Interpretation:**

In year 2017, the Net NPA of HDFC bank was 0.33%, it was increased in 2018 to 0.40%, but in 2019 it was slightly decline to 0.39%. For ICICI bank, in 2017 the net NPA was 4.89%, in 2018 it was decline to 4.77% then in 2019 it declines to 2.06%. Yes bank net NPA was 0.81% in 2017 the it decline to 0.64%, but it was increased higher in 2019 to 1.86%. This study shows that ICICI bank has highest Net NPA among them, but Yes bank has increasing trends.

The trends of net NPAs of these banks is almost similar to that of gross NPAs. HDFC bank net NPA % is rising slightly. However, in case of corporate banks like ICICI bank net NPA % has declined considerably on account of decline gross NPAs and rising support from provisions made against bad loans.

**Suggestions:**

1. Banks should reformulate their credit appraisal techniques.
2. Proper evaluation of loan application helps in detecting the unviable projects.
3. The information about industry, its financial position, management and other information like financial stake, annual accounts, stock reports, etc. should be collected prior to sanction of a loan.
4. Banks should introduce the new system of branch inspection emphasizing prompt rectification of irregularities and early warning system for identifying incipency of NPAs.
5. For HDFC bank, take necessary steps to reduce NPAs. For ICICI bank, the net NPA has decline trends then maintain the same policy for betterment of future. For Yes bank, adopt proper plan and policy for recovering loan and debt.

**Conclusion:**

The banking industry has vital importance in economic growth of our country. So, measuring and maintaining the asset quality of banks is important for the development of banks. The asset quality measuring is very important especially for private sector banks. Many investors, individual who has surplus fund for investment invest their fund in private bank for getting higher rate of interest. If those banks are not improved their assets quality then no one take interest in investment of that banks.

For improving asset quality banks has take the necessary steps to reduce the NPA and improve the recovery mechanism. The objective of the present study is to know the level of gross and net NPA and its impact of profitability of private sector banks. For this study ratios were used i.e. Net NPA and Gross NPA for period of three years 2017 to 2019. It identified that the gross NPA and net NPA gradually increased during the study period.

Higher gross NPA indicate that there is higher corporate loan and default risk comes hand in hand with the higher percentage of corporate loan than retail loan. Stable gross NPAs and Net NPAs indicate that high asset quality. Decline trends indicate improvement in assets quality.

**References:**

1. Chilukuri SS, Srinivas Rao K and Madhav VV (2016) *“An Empirical Analysis on Asset Quality of Indian Banking Industry- Non-Performing Assets to Advances”*
2. Arpita Ghosh (2014) in her Research report title *“Asset Quality of banks: Evidence from India”*
3. Peter Kasavica and Zoran Jovic(2015) *“Impact of Asset Quality on the Profitability of Commercial Bank”*
4. B. Senthil Arasu, P. sridevi P. Nageswari, R. Ramya *“A study on Analysis of Non-Performing Assets and its Impact on Profitability”*
5. Richard Paul Vethamuthu *“Impact of Asset Quality on Financial Performance of Banks In India: A Comparative Study of Public And Private Sector Banks”*
6. [www.moneycontrol.com](http://www.moneycontrol.com)
7. [www.rbi.org.in](http://www.rbi.org.in)

