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“A STUDY ON FINANCIAL PERFORMANCE AND NPAs OF STATE BANK OF INDIA, BANK OF BARODA, ICICI BANK & HDFC BANK

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Abstract

Non-performing Asset is an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. NPA is a virus affecting banking sector. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The Indian banking sector has been facing serious problems of raising Non Performing Assets (NPAs).NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks

Key Words-Non performing asset ,SBI Bank, Bank of Baroda

Introduction

The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management came into picture .The primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal and housing etc. and to receive deposits. Receiving deposit involves no risk, since it is the banker who owes a duty to repay the deposit, whenever it is demanded. On the other hand lending always involves much risk because there is no certainty of repayment. Non Performing Asset (NPA) is one of the major concern and problem for banks in India.

Company Profile

State Bank Of INDIA

It originated as the Bank of Calcutta in June 1806.

In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government (British Govt.), the other two were the Bank of Bombay (1840) and the Bank of Madras (1843). The three banks were merged in 1921 to form the Imperial Bank of India, it acted as central bank of India or quasi central bank till establishment of RBI in 1935.

Bank Of Baroda

The bank was founded by the Maharaja of Baroda, Maharaja Sayaji Rao Gaekwad III on 20 July 1908. Two years later, BOB established its first branch in Ahmadabad. The bank grew domestically until after World War II. Then in 1953 it crossed the Indian Ocean to serve the communities of Indians in Kenya and Indians in Uganda by establishing a branch each in Mombasa and Kampala. The next year it opened a second branch in Kenya, in Nairobi, and in 1956 it opened a branch in Tanzania at Dar-es-Salaam. Then in 1957, BOB took a big step abroad by establishing a branch in London.

ICICI

ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. Until the late 1980s, ICICI primarily focused its activities on project finance, providing long-term funds to a variety of industrial projects. With the liberalization of the financial sector in India in the 1990s

HDFC

The Housing Development Finance Corporation Limited or HDFC was among the first financial institutions in India to receive an “in principle” approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. This was done as part of RBI’s policy for liberalisation of the Indian banking industry in 1994.

RESEARCH METHODOLOGY

- **UNIVERSE;**
Employees working in SBI ,BOB,HDFC,ICICI

Source of Information:

- Secondary data are to be collected through website of SBI Bank for 5 years i.e. from 2013-14 to 2017-18.
- Other Source of Information includes Journals, Websites, Newspapers, Magazines, Books, and Surveys etc.
Purposive sampling techniques are used in the study.

HYPOTHESES

Public bank are goal is to provide best service whereas private bank want to earn profit.

ANALYTICAL TOOLS

➤ BAR GRAPHS

LITERATURE REVIEW

1) **By:Amandeep Kaur Hundal(2016)**Assistant Professor in University College, .U.K.” **Topic** :Performance Evaluation of Public And Private Sector Banks In India: A Comparative Study”Following suggestions are offered to improve the performance of public and private sector banks in India. Bank Should try to reduce the operating Expenses. Appropriate measure should be taken to increase the investment deposit ratio. The banks should take some effective steps to increase the credit deposit ratio. The banks should take efforts to reduce the provision and contingency Bank Should reduce its NPA. Bank should offer some discount to recover NPA

2) **Kumar (2013)**in his study on A Comparative study of NPA of Old Private Sector Banks and Foreign Banks has said that Non-performing Assets (NPAs) have become a nuisance for the Indian banking sector for the past several years.1 One of the major issues challenging the performance of commercial banks in the late 90s adversely affecting was the accumulation of huge nonperforming assets (NPAs). The quality of loan portfolio is very crucial for the health and existence of the banks. High level of (NPAs) has many implications on profitability, productivity, liquidity, solvency, capital adequacy and image of the bank.

3) **Barge (2012)**reported that “NPA as an alarming threat sending distressing signals on sustainability and tolerability of the affected banks.2 A high level of NPAs suggests high probability of a large no. of credit defaults that affect the profitability and net worth of banks and also erodes the value of the asset.”

4) **Barot (2015)**emphasized on measuring the relationship between net NPA with net advances of selected PSBs of India.3 The study has analyzed data of eight financial years i.e. 2006-07 to 201314. The paper concluded that there is significant difference between performances of Net NPA to Net Advance Ratio in banking sector.

5) **Das and Dutta (2014)** studied the NPA of Public Sector Banks in India using ANNOVA and SPSS software. Secondary Data collected from RBI website of 6 years (2008-13).4 It was found that there is no significant difference.

6) **Jain (2014)** highlighted the defaulting companies and threats emerging out of it.5 The paper reported that “Stressed loans in Banking system in India make up for 5.5 lac crore gaping hole by some estimates and poses a grave risk to economy and financial sector.” Since, Govt. and banks should take steps to revive loans

7) **Narula and Singla (2013)**say that NPA is a virus affecting Banking sector.6 It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks. The study used annual reports of PNB for period of six years from 2006-07 to 201112 and analyzed by using tables and coefficient of correlation. The study concluded that there is positive relation between Net Profits and NPA of PNB. It is because of mismanagement on the side of bank.

8) **Pharate (2015)** says that reduction in NPA of private banks led to an improvement in their productivity, efficiency and profitability during 2011- 12, 2012-13 and 2013-14.⁷ The paper revealed that percentage share of priority sector in Total NPAs of all Bank groups (except of Private Sector Banks) went up during the reference period.

9) **Pradhan (2012)** in their study of management of NPA in commercial banks in Odisha found that the high level of NPA forced the banks to charge higher PLR & PLR interest rates.⁸ The major hurdle in efficient functioning of banks is sluggish legal system of our country.

10) **Roy (2014)** studied the trends in NPA in Indian Banks and its determinants.⁹ The paper emphasized on evaluating the impact of selected macroeconomic variables of NPA. The study concluded that GDP growth change in Exchange Rate, global volatility have major effects on NPA level of Indian Banking sector.

11) **Satpal (2014)** reported that “NPA as an alarming threat sending distressing signals on sustainability and tolerability of the affected banks.¹⁰ A high level of NPAs suggests high probability of a large no. of credit defaults that affect the profitability and net worth of banks and also erodes the value of the asset.”

DATA INTERPRETATION

8.1) TOTAL ASSEST:

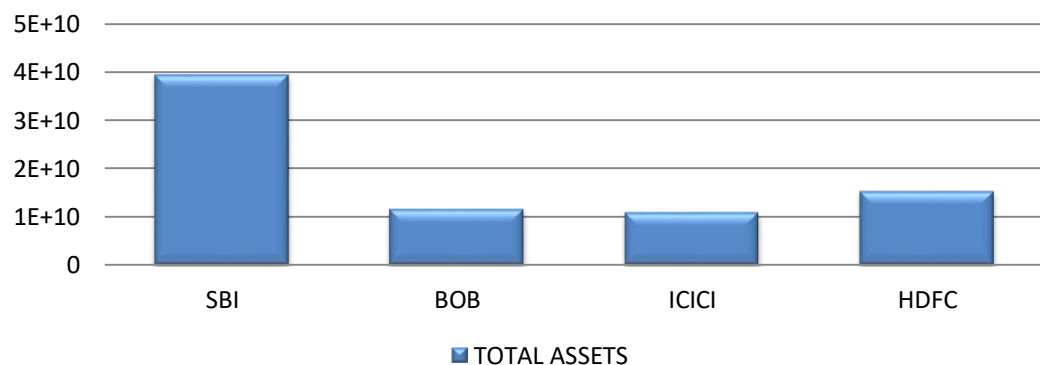
The objective of analysing the total asset is to know the position of all four bank in term of asset. For the time period of 2019-20. A firm's total assets included all current & fixed assets.

Table No. 1

000's

Bank	SBI	BOB	ICICI	HDFC
Total assets	39,513,939,180	11579155151	10,983,651,492	15,305,112,589

TOTAL ASSETS



Source : Annual Report

8.2) GROSS NPA RATIO:

Gross NPA ratio is the ratio of gross advance of the bank. Gross is the sum of all the loan, assets that are classified as NPA as per RBI guideline, the ratio is to counted in the term of percentages and the formula of GNPA is:

$$\text{Gross NPA Ratio} :- \text{Gross NPA} / \text{Gross Advance} * 100$$

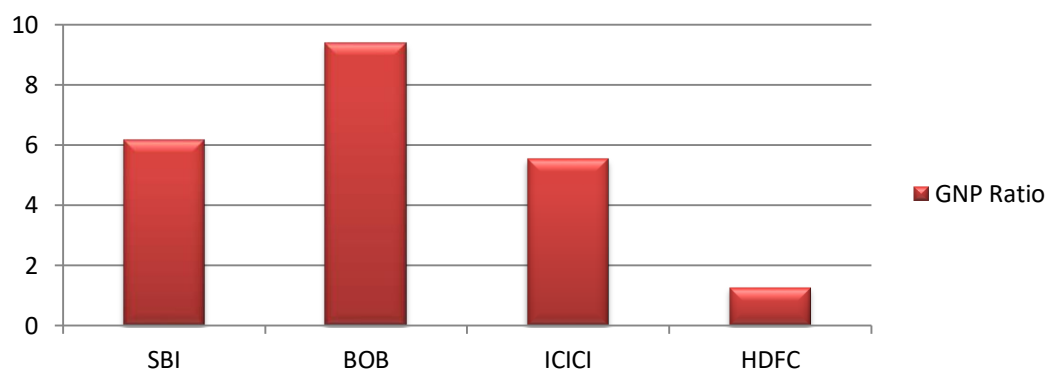
Table 2

000's

Bank	SBI	BOB	ICICI	HDFC
Gross NPA Ratio	6.15	9.40	5.53	1.26

Source: Money Control

GNP Ratio



8.3NET NPA RATIO:

The net NPA percentage is the ratio of NPA to net advances in which is to be deducted from the gross advances. The provision is to be made for NPA account. The formula for that is.

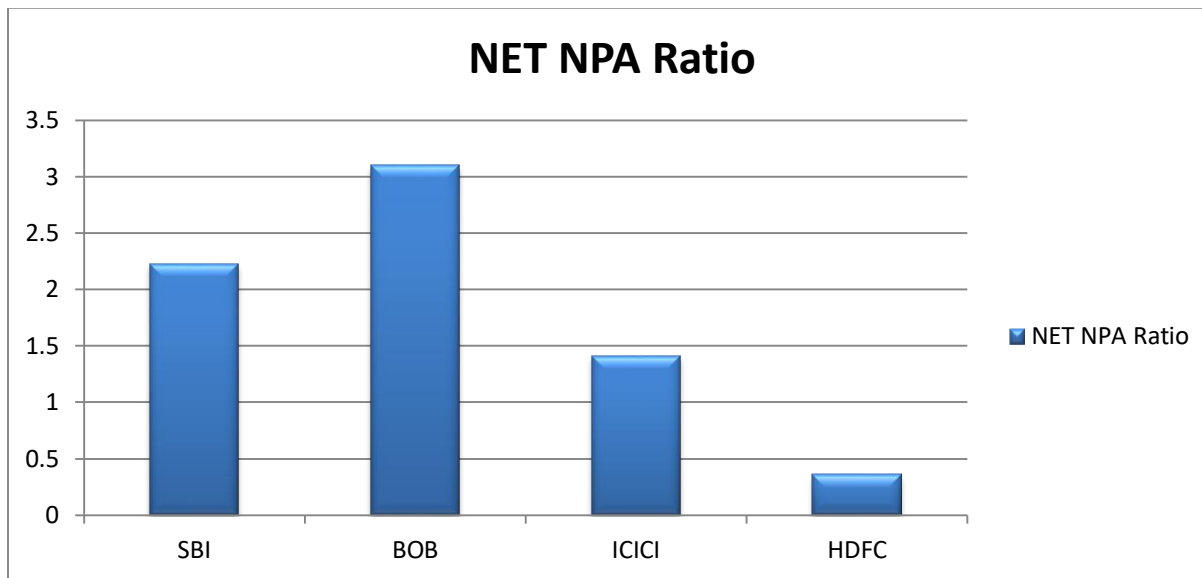
$$\text{Net NPA Ratio} :- \text{Net NPAs} / \text{Net Advances} * 100$$

Table 2

000's

Bank	SBI	BOB	ICICI	HDFC
Net NPA Ratio	2.23	3.13	1.41	0.36

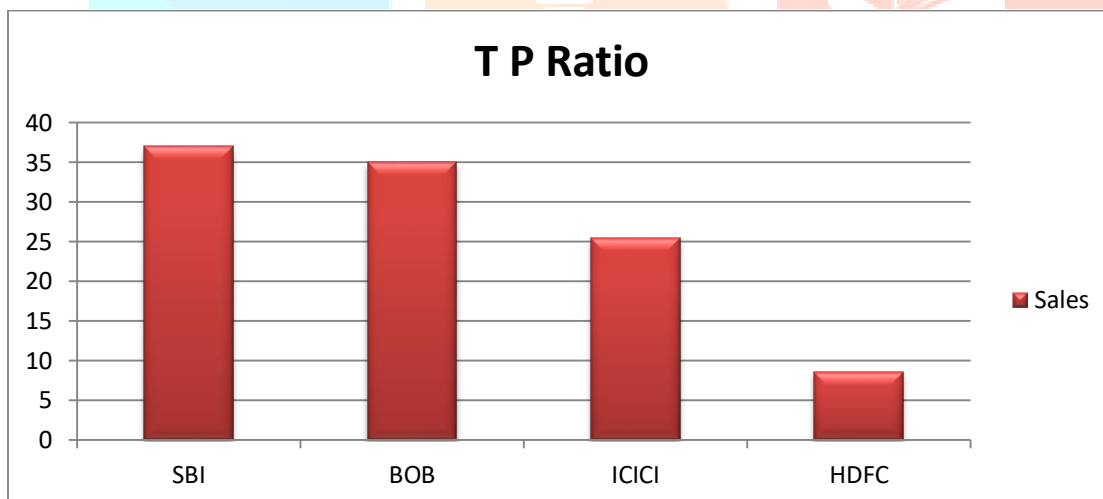
Source: Money Control



8.4 TOTAL PROVISION RATIO:

Provisions are to be made for to keep safety the NPA, and it directly effect on the gross profit of the banks. The provision ratio is nothing but total provision held for NPA to gross NPA of the banks. The formula for that is:

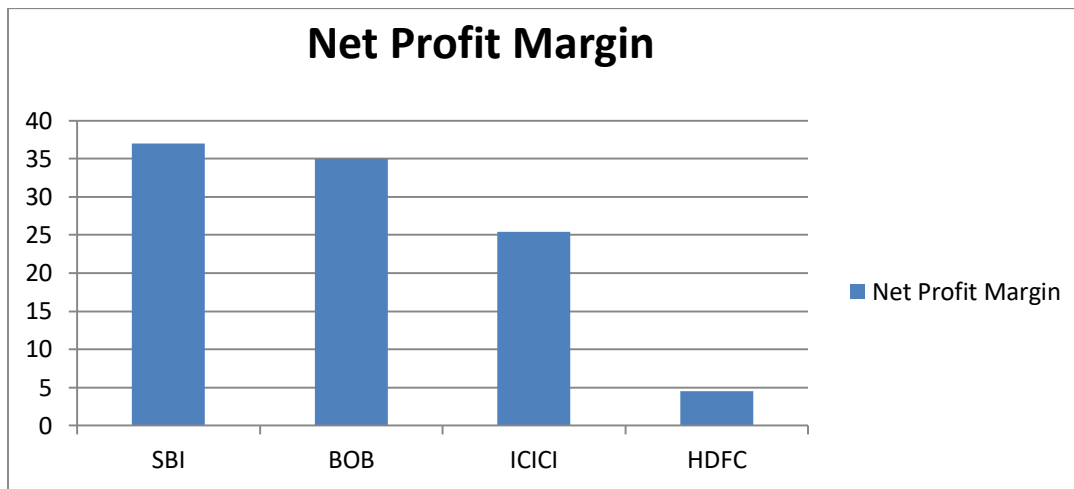
Provision Ratio:- $\frac{\text{Total Provision}}{\text{Net NPAs}} \times 100$



8.5 NET PROFIT MARGIN:

The net profit margin is calculated by dividing net income by sales. Both of these numbers are found on a bank's net income or profit-and-loss statement. Net profit margin shows how much of each sales dollar is earned by the company as profit. Comparing net profit margin across the banking industry or another industry allows a lender or investor to determine how well one company is doing in relation to its peers.

Net Profit Margin: Net Income/Total Operating Income*100



8.6 OPERATING PROFIT MARGIN

A bank's operating profit is calculated after deducting operating expenses from the net interest income. Operating expenses for a bank would mainly be more of administrative expenses. The Operating margins are profits earned by the bank on its total interest income.

PROFIT OPERATING MARGIN:- $(\text{Net interest income} - \text{operating expenses}) / \text{total interest income}$

Table 2

Bank	SBI	BOB	ICICI	HDFC
Operating Profit	-11.94	-12.85	<u>-11.38</u>	2.6

Source: Money Control



8.7 RETURN ON EQUITY:

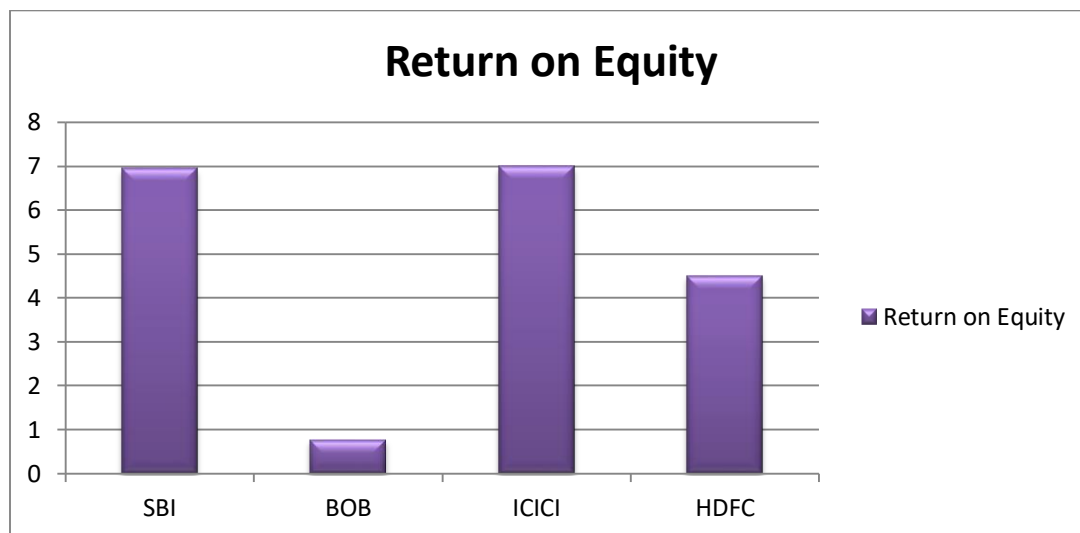
For return on equity, you'll need the net income as well as the total shareholders' equity, which can be found on the balance sheet. The formula for ROE is similar to the ROA formula, except that you divide by equity instead.

RETURN ON EQUITY: - Net Income/Equity

Table 2

%

Bank	SBI	BOB	ICICI	HDFC
Return On Equity	6.95	0.76	6.99	15.35

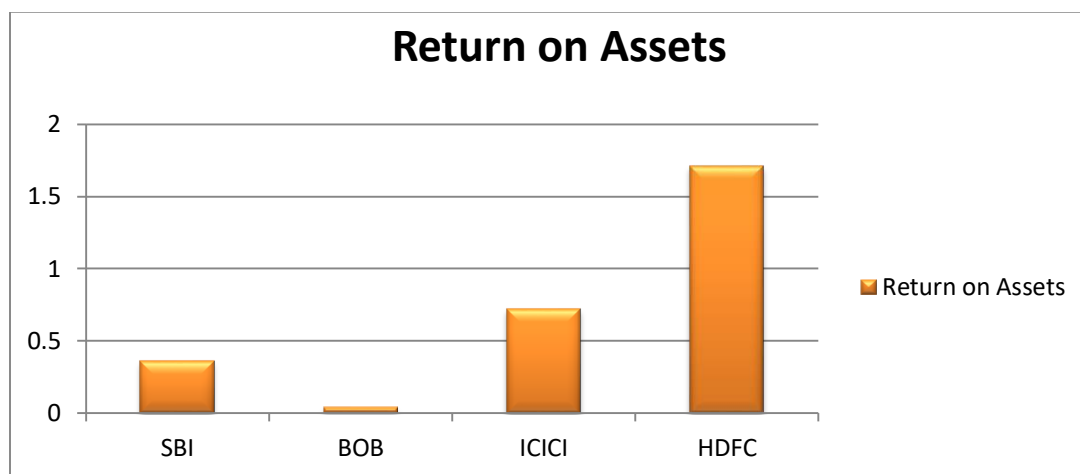
Source: Money Control**8.8 RETURN ON ASSETS:**

To calculate a bank's return on assets, you need to know two pieces of information. First, you need to find the net income, which can be found on the bank's income statement. Next, you need to find the bank's assets (loans, securities, cash, etc.), which can be found on the bank's balance sheet. To calculate return on assets, simply divide the net income by the total assets, then multiply by 100 to express it as a percentage.

RETURN ON ASSETS: - Net Income/Total Assets*100

%

Bank	SBI	BOB	ICICI	HDFC
Return on Assests	0.36	0.04	<u>0.72</u>	1.71



CONCLUSION

The NPAs have always created a big problem for the banks in India. It is not just a problem for banks but for the economy too. The money locked up in NPAs has a direct impact on the profitability of the bank as Indian banks are highly dependent on income from interest on funds lent. This study shows that the extent of NPA is comparatively very high in public sector banks as compared to private banks. Although various steps have been taken by the government to reduce the NPAs, but still a lot needs to be done to curb this problem. The NPA level of our banks is still high as compared to foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strategy should be followed for solving this problem.

