

Impact of Non-Performing Assets Upon Profitability of State Bank of India

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Abstract: Banking is considered as the axis on which the whole economy spins. A strong banking Sector is required for the smooth operation of an economy. In the past decade, Non-Performing Assets have long been one of the most visible and frightening issue that have shaken the whole banking industry around the world. India's NPA's are increasing year by year hitting its maximum in March 2018 and currently showing a decreasing trend slightly. There are many impacts that are caused by non-performing assets and the major impact is on the profitability of the bank. Like any other business banks also focuses on increasing the profitability and also maximising shareholders value. It has been argued that public sector banks, especially State Bank of India contributes more to India's NPA. This study aims to find out whether there is any significant relationship between net profits and level of NPA and also the impact of NPA on earnings per share (EPS) and return on assets (ROA). The study is based on secondary data collected from annual reports of State Bank of India for a period from March 2018 to March 2022. Regression analysis is used to find out the relationship and nature of relationship existing between NPA, net profits, EPS and ROA.

Key words: Non-Performing Assets (NPA), Profitability, Earnings Per Share (EPS), Return on Assets (ROA)

INTRODUCTION

The economic future of the country is wholly dependent on banking sector. As said by Manish Kapoor in his study 'Non-Performing Assets of Public Sector Banks in India', "the three letters strike terror in banking sector and business circle today-NPA, the short form of non-performing assets, shows the signs of persistent bank of hitherto developmental policies". Like any other business banks should be profitable, but in recent decades the profits of banks are eaten up by NPA's.

The concept of NPA came into existence with the recommendation of the Narasimham Committee in the year 1992-1993. As per committee recommendation NPA is defined as a loan asset which has stopped to generate any income for a bank whether in the form of interest repayment or principle repayment. In order to adopt international practices and to ensure more transparency, it was decided to adopt the 90 days overdue norms for identification of NPA's.

According to RBI's financial report, statistics shows that the banks total NPA fell to 5.97 as a percentage of total advances in financial year 2021 – 2022, which hits its peak in March 2018 with a total NPA at 11.5% of gross advances. Even though

NPA's fell in recent years, India is still in the second largest position in its NPA in the world.

It has been argued as a problem that the problem relates to public sector banks because they have disproportionate share of NPA. State Bank of India topped the list, with its bad loans rising to 1.27 lakh crores as of March 2022.

Objectives

1. To study the trend of gross and net NPA during 2018-2022
2. To identify the impact of NPA's on profitability, Return on Assets (ROA) and Earnings Per Share (EPS) of State Bank of India.

Hypothesis

- H: NPA has no significant impact on net profit.
- H: NPA has no significant impact on return on assets.
- H: NPA has no significant impact on earnings per share.

RESEARCH METHODOLOGY

This study is based on secondary data collected from annual reports of State Bank of India and RBI reports. The data collected were analysed with the help of statistical tools correlation and regression to identify the relationship and nature of relationship between the variables. Here non-performing asset (NPA) is the independent variable and net profit, return on assets and earnings per share are the dependent variables. This study aims to find out the impact of NPA on above recognised dependent variables in the period March 2018 to March 2022.

Review of Literature

Ahmed (2013) investigated the management of non-performing assets in commercial banks using evidence from the Indian banking sector. The main objective was to study the asset portfolio of commercial banking groups in India and the nature & growth of NPA over these years. Relevant data were collected from secondary sources for periods from 2000 to 2009. He argued that increasing a bank's NPA would reduce its financial health in terms of profitability, liquidity, and economies of scale, while managing the NPA would challenge the resilience of the bank.

Das & Dutta (2014) undertook a study on the distressed assets of Indian public sector banks. The researchers explained that non-performing assets are a pressing issue for public sector banks as the management and control of NPA's is of great importance. The primary objective of the study was to examine whether there was a significant difference in the average volatility of the banks involved. The paper also focuses on the rationale behind the NPA and its impact on banking. Using secondary data from the RBI website, this paper uses ANOVA statistics and SPSS software to analyse this six-year (2008-2013) the data. The researchers found a significant variation of among the NPA's mean of public sector banks.

Chellasamy P.et.al (2018), The purpose of this study was to measure the relationship between NPA and profitability for selected banks and to determine the impact of NPA on the net income of selected banks. The study applied correlation analysis to measure

the relationship and regression analysis to determine the impact of NPA on profitability. The study found that NPAs had a significant impact on the net income of some public sector banks during the study period.

B. Senthil Arasu, et.al (2019), aims to understand the level of non-performing assets (NPA) and its impact on banks profitability. It found that both public and private banks gradually increased their gross and net NPAs during the period April 2014 to March 2019. The study revealed a significant negative relationship between NPA and return on assets (ROA) for public and private sector banks. The study recommends that regulators and respective banking officials to take necessary steps to reduce NPAs and improve recovery mechanisms.

Analysis and Discussion

The analysis revealed that non-performing assets of State Bank of India is currently shows a decreasing trend and profitability, return on assets and earnings per share of the bank has increased during the relevant study period as shown in Table 1 below. The following chart 1 shows the graphical representation of the same.

TABLE 1: Summary of Data

Year	Net NPA (in Cr.)	% of Net NPA	Net Profits (in Cr.)	Return on Assets %	Diluted EPS.
2018	110854.7	5.73	-6547.45	-0.19	-7.67
2019	65894.74	3.01	862.23	0.02	0.097
2020	51871.3	2.23	14,488.11	0.38	16.23
2021	36809.72	1.5	20,410.47	0.48	22.87
2022	27965.71	1.02	31,675.98	0.74	35.49

Source: SBI annual reports from 2018-2022

TABLE 2
Correlation Analysis

Variable	Correlation
Net profit	-.932
Return on Asset	-.944
EPS	-.928

Source : computed data

Table 2 shows the correlation between net NPA and EPS, net profit and return on assets of State Bank of India. From the above it is evident that there is high negative

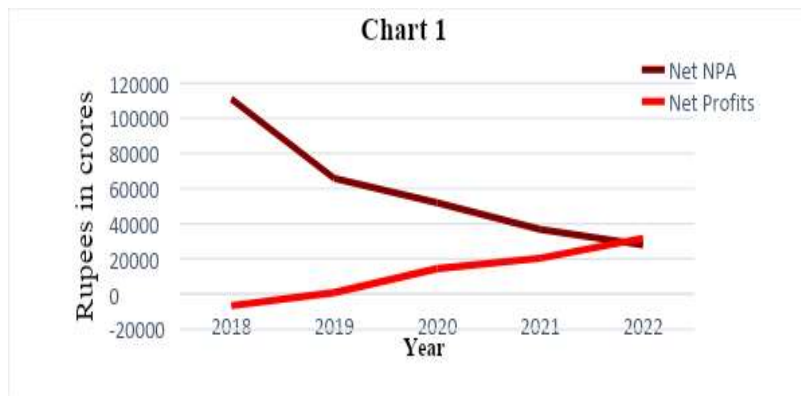
correlation between NPA and other variables analysed. As NPA decreases, the profitability, return on assets and earnings per share of SBI is increasing and vice versa.

TABLE 3
Linear Regression Analysis

Variables	R	R ²	Adjusted R ²	Coefficients Beta	t	Sig.
Net profit	.932	.869	.825	-.932	-4.455	.021
Return on Asset	.944	.891	.854	-.944	-4.942	.016
Earnings Per Share	.928	.862	.816	-.928	-4.323	.023

source: computed data

Table 3 shows the results of regression analysis between dependent variables net profit, return on assets & earnings per share and the independent variable net NPA. From R² (.869) value of net profit, states that NPA



has 86.9% impact on the net profits of the bank. The p value of F-test is 0.021, which is less than the significance level 0.05 hence the null hypothesis (H₀: NPA has no significant impact on net profit.) is rejected. Thus, it can be concluded that NPA has significant impact on the net profits.

The results of regression analysis between dependent variable return on assets and the independent variable net NPA, R² (.891) states that NPA has 89.1% impact on return on assets of the bank. The p value of F-test is 0.016, which is less than the significance level 0.05 hence the null hypothesis (H₀: NPA has no significant impact on return on assets.) is rejected. Thus, it can be concluded that NPA has significant impact on the return on assets.

From R² (.862) of earnings per share it is clear that NPA has 86.2% impact on the earnings per share of SBI. The p value of F-test is 0.023, which is less than the significance level 0.05 hence the null hypothesis (H₀: NPA has no significant impact on earnings per share.) is rejected. Thus, it can be concluded that NPA has significant impact on the earnings per share of shareholders in State Bank of India.

CONCLUSION

Banking companies are exposed to various types of risks in conducting their core business, particularly lending. This leads to an increase in bad assets. Non-performing assets are a big problem for developing countries like India. In banking it may not be able to eliminate NPAs entirely, but we can control them. While much research has been done on managing NPAs, it is also important to understand the impact of NPAs on bank profitability. An attempt was therefore made to examine the impact of NPAs on the profitability and performance of State Bank of India. This study found that NPAs had a significant impact on the net income, earnings per share and return on assets during the study period. It is also found that there exists a negative relationship between non-performing assets with profitability, return on assets and earnings per share of State Bank of India. As a result, decreasing trend of NPA during the period March 2018 to March 2022 shows an increasing trend in the net profits, return on assets and earnings per share.

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