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Impact of Assets Quality and Profitability of Selected Indian Public Sector Banks

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Abstract: A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. This paper attempts to analyze the assets quality and profitability of public sector banks in India. Public sector banks form major part of total banking system in India so there is a need to evaluate the assets quality and profitability of these banks. This paper is primarily based on secondary data. The present paper will make an attempt to probe and understand the factors influencing the assets quality and profitability of public sector banks. In order to derive the open handed results from the information collected through secondary data, various statistical tools like mean, standard deviation and F value analysis have been accomplished. The scope of the paper is confined to selected public sector banks data period from 2011-12 to 2015-16. The study concludes that there is significant relationship between Assets Quality and the Profitability of selected Public sector banks in India.

Keywords: Assets Quality , Profitability, Gross Non-Performing Assets, Total Income, Spread, Interest income and Total Assets.

INTRODUCTION

The all India Rural Credit Survey committee recommended the creation of one strong integrated, state sponsored, state partnered commercial banking institution with effective branches spread over the whole country. In pursuance of its recommendations, the imperial bank was nationalized and renamed as a State Bank of India from July 1, 1955. Nationalized of the Imperial Bank of India heralded the entry of Public sector into commercial banking. To further strengthen the public sector banking structure, eight state associated banks were taken over by the State Bank of India as its subsidiaries with the passing of the State Bank of India (subsidiary banks) Act 1959.

Public Sector Banks (PSBs) being an important group of financial organizations of our economy, act as the back-bone of economic growth and prosperity. These banks are, therefore, treated as the instruments for conversion of static credit into dynamic credit. In terms of the role of Public Sector Banks (PSBs) in a planned economy, they may be distinguished from other financial institutions in as much as the former assist in the implementation of Government plans by providing the sinews of development. Primarily, the banks perform functions of a technical nature including the fulfillment of credit requirements as per Government's economic plans and controlling the utilization of these credits according to planned priorities.

STATEMENT OF THE PROBLEM

Assets quality and profitability are key performance parameter in banking sector, which reflects efficient utilization of all resources in an organization. The banks are now facing a number of challenges such as frequent changes in technology required for modern banking, stringent prudential norms, increasing competition, worrying level of non-performing assets, raising customer expectations, investing pressure on profitability, asset-liability management, liquidity and credit risk management, raising operating expenditure, shrinking size of spread and so on. The present study attempts to analyze the overall performance, profitability of selected public sector banks (PSBs) in India.

REVIEW OF LITERATURE

Viakas Choudhary .Dr and Suman Tandon (2010) In their studies titled “ Performance evaluation of public sector banks in India” found that the CAGR of various variable have shown variation form bank to bank. State Bank of Indore has shown maximum CAGR incase of total advances, total deposits and total assets. Punjab and Sink Bank has shown least growth of deposits and advances and State Bank of India has least growth of deposits. CAGR of return on equity and return on assets was at peak of United Bank of India whereas Dena Bank, Punjab & Sind Bank have shown negative trend in there ratios. Decline of NPAs ratio was highest in case of State Bank of Hyderabad and least in case of Dena bank.

Vighneswara Swamy (2012) In his study titled “Determinants of Bank Asset Quality and Profitability -An Empirical Assessment” found that Priority sector credit has been found to be not significant in affecting the NPAs contrary to the general perception and similar is the case with that of rural branch simplying that aversion to rural credit is a falsely founded perception. Public sector banks have shown significant performance in containing bad debts private banks have continued to be stable in containing the bad debts as they have better risk management procedures and technology, which definitely allows them to finish up with lower levels of NPAs.

Khalid Ashraf Chisti (2012) In his study titled”The impact of Asset Quality on Profitability of Private Banks in India” found that his study when a bank's asset quality becomes worse, it takes more resources for a bank to conduct non- value-added credit receiving activities, which leads to poor performance. The asset quality and profitability are negatively correlated in the banking industry.

J.Kumar and Dr.R .Thamil Selvan (2014). In their studies titled “Capital Adequacy determinants and profitability of selected Indian commercial banks” found that ICICI bank has the most favorable capital adequacy ratio compared to other various banks. The Bank of India and Bank of Baroda are expanding their business much more. The advance of assets in State Bank of India is better profitability, Satisfactory.

Total assets of HDFC bank higher spread indicates better earning capacity of the banks. The non-interest income of Total income an Axis banks are higher in percentage ratio. It helps to determine the liability of the bank to earn revenue from other than the core activities of banks.

Petar Kasavica and Zoran Joviæ (2015). In their studies titled “Impact of Assets Quality on Bank Profitability – Case study” found that maturity affects the profitability margins, primarily the CM1 margin, which is conditioned primarily by the fact that, as a rule, long-term loans on annual level dictate slightly lower interest rates, while short-term loans dictate a slightly higher interest rate. A higher level of NPLs increases the provisions towards the NBS and reduces the level of profitability.

Lucky Anyike Lucky and Nwosi Anele Andrew (2015) In their studies titled “Assets Quality and Profitability of Commercial Banks : Evidence from Negeria” found that there is significant relationship between asset quality and the profitability of the commercial banks. It recommends that bank lending environment should be well examined before and after credit and the regulatory authorities should ensure sound bank lending environment to avoid the incidence of non-performing loans to enhance the profitability of commercial banks in Nigeria.

Kumar,J and Dr. R. Thamil selvan (2016). In their studies titled “Performance evaluation of selected public and private banking sectors through Camel model in India” Found that that on the basis of group averages sub parameters of capital adequacy, Assets Quality and Liquidity Ratio of public sectors banks was at the top position compared with private sector banks. In terms of Management Efficiency and Earning quality private sector bank was better than that the selected public sector banks.

OBJECTIVES OF THE STUDY

The objectives of the study are

- 1) To analyze the Assets Quality and Profitability of the selected banks and
- 2) To make a comparison of various selected Indian public sector banks.

RESEARCH METHODOLOGY

The study is based upon secondary data covering period from 1st April 2011 to 31st March 2016. The study is related to public sector banks, on the basis of their Total Assets and Income. The public banks are State Bank of India (SBI), Bank of Baroda (BOB), Punjab National Bank (PNB), Bank of India(BOI), Canara Bank(CB), Union Bank of India(UBI), and Industrial Development Finance Corporation Bank (IDBI). The data has been collected from the various banks annual reports RBI website and Indian Banking Association website.

The above table shows that detail of assets quality ratios of selected public sector banks. The lowest mean 3.0440 and the F value 10.795 reveal that Gross Non-performing Assets (GNPAs) is lowest in Bank of Baroda than other public sector banks. The lowest mean value of 2.0580 and the standard deviation show that Net Non-performing Assets (NNPAs) is lesser in Bank of Baroda than other public sector banks. The Lowest mean value of 18.6900 and the standard deviation explains that Bank of Baroda Total Investment to Total Assets (ITTA) is lesser than other public sector banks. The lowest mean value of 0.1620 and the standard deviation value 0.05263 show that Net Non-performing Assets (NNPAs) to Total

Table 1
Assets Quality Ratios of Selected Public Sector Banks

<i>Ratios</i>	<i>BANKS</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>F. Value</i>	<i>Significance</i>
GNPAs	SBI	4.9780	0.89284	10.795	0.001
	BOB	3.0440	1.19463		
	PNB	6.3800	3.87849		
	BOI	3.9020	1.50598		
	CB	4.0240	3.12573		
	UBI	4.7460	2.35881		
	IDBI	5.4940	3.34638		
NNPAs	SBI	2.4840	0.78844	8.972	0.001
	BOB	2.0580	1.74923		
	PNB	3.8720	2.80287		
	BOI	3.3360	2.58523		
	CB	2.9380	1.99274		
	UBI	2.7200	1.48540		
	IDBI	3.0660	2.15058		
TI/TA	SBI	22.6600	1.16471	35.277	0.000
	BOB	18.6900	2.02999		
	PNB	25.9560	1.35979		
	BOI	20.4460	1.32713		
	CB	26.9400	1.50260		
	UBI	24.5780	1.77071		
	IDBI	30.2340	2.86984		
NNPs/TA	SBI	0.1620	0.05263	0.669	0.010
	BOB	0.4880	0.34179		
	PNB	1.0140	0.64586		
	BOI	2.1300	1.44846		
	CB	1.5520	1.32929		
	UBI	1.8040	0.97646		
	IDBI	1.8080	1.21531		

Sources: Annual report of Banks and results generated with the help of SPSS

Assets (TA) is lowest in State Bank of India than other public sector banks. The above table demonstrates that there is a significant relation between Assets quality ratio and selected public sector banks.

The above table shows that detail about profitability ratios of selected public sector banks. The highest mean value of 2.2040 and standard deviation value 0.26651 shows that average working capital funds (AWCF) in Bank of India (BOI) is higher than other public sector banks. The highest mean value of 2.8060 and the standard deviation 0.26801 in Spread to Total assets (SP/TA) State Bank of India is higher than other public sector banks. The highest mean value of 0.6620 and the standard deviation value 0.22298

Table 2
Profitability Ratios of Selected Public Sector Banks

<i>Ratios</i>	<i>BANKS</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>F.Value</i>	<i>Significance</i>
OP/AWCF	SBI	2.0060	0.22512	28.996	0.000
	BOB	1.6940	0.35458		
	PNB	1.4560	0.38292		
	BOI	2.2040	0.26651		
	CB	1.5040	0.15209		
	UBI	1.8140	0.36212		
	IDBI	1.8640	0.23298		
SP/TA	SBI	2.8060	0.26801	27.763	0.003
	BOB	1.9860	0.20720		
	PNB	2.7980	0.31124		
	BOI	1.9580	0.12677		
	CB	1.8640	0.12462		
	UBI	2.3080	0.22276		
	IDBI	1.6580	0.10281		
NP/AAs	SBI	0.6620	0.22298	4.692	0.010
	BOB	0.4620	0.74264		
	PNB	0.5160	0.66819		
	BOI	0.2400	0.64479		
	CB	0.3960	0.57413		
	UBI	0.5680	0.21441		
	IDBI	0.1780	0.67203		
INI/TI	SBI	87.3500	1.21754	36.078	0.002
	BOB	90.1100	0.52350		
	PNB	89.4020	1.41121		
	BOI	90.3820	1.10708		
	CB	90.8860	0.60077		
	UBI	90.4100	0.57389		
	IDBI	89.3880	1.55321		
NII/TI	SBI	12.6500	1.21754	41.409	0.027
	BOB	9.8900	0.52350		
	PNB	10.5980	1.41121		
	BOI	9.6180	1.10708		
	CB	9.1140	0.60077		
	UBI	9.5900	0.57389		
	IDBI	10.6120	1.55321		

Sources: Annual report of Banks and results generated with the help of SPSS

shows that Net non-performing assets (NPAAs) is higher in State Bank of India (SBI) than other public sector banks. The highest mean value of 90.8860 and the standard deviation value 0.60077 show that Interest Income to Total income (INI/TI) is high in Canara Bank (CB) than other public sector banks. The highest mean value of 12.6500 and the standard deviation value 1.21754 demonstrate that Non-Interest Income to Total income (NIIT) is higher in State Bank of India (SBI) than other public sector banks. The above table reveals that there is significant relationship between Profitability ratio and selected public sector banks.

CONCLUSION

The Asset quality in an important parameter to estimate the strength of bank and profitability determines the ability of bank to earn consistently. The study revealed that Asset quality measuring Bank of Baroda is top position with least average followed by Bank of India in ratio of Gross Non-performing Assets (GNPAs) and Total Investment to Total Assets (TI/TA). The Bank of Baroda and State Bank of India are the top position in ratio of Net Non-performing Assets (NNPAs). As for as Non-performing Assets (NNPAs) to Total Assets (TA) ratio is concerned State Bank of India highest position followed by Bank of Baroda and last position is Bank of India. Whereas Punjab National Bank is lowest position estimating the quality of assets due to its poor performance in ratio of Gross Non-performing Assets (GNPAs), ratio of Net Non-performing Assets (NNPAs), and Total Investment to Total Assets.

In terms of profitability parameter Bank of India and State Bank of India are the top position in ratio of Operating profit to average working capital funds ratio (OP/AWCF) and least average is Punjab National Bank. With regard to Spread to Total Assets (SP/TA) and Non-Interest Income to Total income (NII/TI) ratio is concerned State Bank of India and Punjab National Bank are the top position. As per as Net profit (NP) to Average Assets (AAs) ratio is concerned State Bank of India highest position followed by Union Bank of India. As part of measuring in profitability highest position Canara Bank and Union Bank of India in the ratio of Interest Income to Total income (INI/TI) and lowest average is State Bank of India. Whereas Industrial Development Bank of India is lowest position estimating the Profitability due to its poor performance in ratio of Spread to Total Assets (SP/TA) and Net profit (NP) to Average Assets (AAs). The possible reason for this is poor performance of Canara Bank in the ratio of Non-Interest Income to Total income (NII/TI).

The selected public sector banks were efficient in preserve the credit risk. The banking sector in India as responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting and income recognition. There is significant relationship between Assets Quality and the Profitability of selected Public sector banks in India. Punjab National Bank to improve its position with regard to Quality of assets, Bank of India improves its Net Non-performing Assets. Industrial Development Bank of India should improve its profitability and State bank of India improve its Interest Income.

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