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### Impact of NPAs on Profitability of Indian Banks

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#### ABSTRACT

Banking sector is an indispensable part of every economy. It is major component of financial system in every country which provides various financial facilities and options to the public at large. It is no exaggeration to say that success or failure of any economy depends majorly on banking system. Success and profits of bank depends upon the quality of assets it have. Major proportion of assets comprises of loans advanced and investments. Efficient management of these assets is most essential to ensure profitability and viability of a bank. If these assets are of poor quality, then more provision is required for NPA, and depreciation of investment. Higher provisions decline the profits of bank. Hence quality of assets has the significant and notable impact on profitability of banks. In this paper an attempt has been made to evaluate the impact of asset quality on profits of selected banks.

**Keywords:** Public Sector Banks, Private Sector Banks, Provisions for NPA, provisions for investments.

#### 1. INTRODUCTION

Every business organization whether it is profit oriented or not, is interested in ascertaining the outcome of its efforts in the form of what it has gained or lost in financial terms. Profit is the basic objective of every business organization.

Which ensures the viability of the organization and is a barometer of assessing its financial strength and prosperity. “Profit is the difference between total revenue generated and total cost incurred to generate that revenue over a period of time (Gupta, 1997)”. The importance of profit cannot be brushed aside. “Only a vibrant and viable and a profit oriented bank can contribute to a productive and healthy banking system. This system can, then, play its indispensable role in accomplishing and maintaining the socio-economic development of a country and serve as a friend, philosopher and guide to the industrial units (Amandeep, 1993)”.

“Profitability is an ability of the given investment to earn return from its use (Raul & Ahmed, 2005).” It is the earning power of a particular investment and is a tool to measure the soundness of the business organization. Profitability is measured in relative terms and has been a significant criterion to ascertain the overall efficiency and operational soundness of a bank in the task of funds management. Performance of a bank can be evaluated by a number of factors or indicators, but, profitability has been considered to be the most crucial and reliable indicator. “Profitability in a banking parlance indicates the operational efficiency with which a bank deploys its total resources to optimize its net profits and, hence, serve as measure of asset utilization and effectiveness of management (Debashish, 2003).” “If the profitability ratios of the banking organization are better and comparable with international banks, they get advantage of the higher rating, higher rate for equity and debt instrument/paper they offer, more finer margins in respect of international borrowers and better alliance (Padmanabhan, 1997).”

There has been a tremendous transformation, which the Indian Banking system has been undergoing. One such key change witnessed is the growth of commercial banks. The commercial banking system, being an important player of the Indian financial system, has also witnessed a vast & comprehensive change from regulated to competitive and deregulated scenario. Another reform for these banks, which has come in a big way, is the diversification of their loan portfolios. In view of the above changes, it becomes indispensable to measure the shift in the profitability performance of the commercial banks.

## 2. REVIEW OF LITERATURE

**John and Philip** (2006) in their study “Non Performing Assets in the Banking Sector: A Study of Recovery through DRTs”, found that since the introduction of the prudential norms in 1992-93, the NPAs of Indian banks had drastically fallen from 16.58 per cent on March 31, 1996 to 5.34 per cent on March 31, 2005. In context of managing NPAs, they further stressed that instead of recovery of bad loans through courts, fast track judicial system i.e. Debt Recovery Tribunals were more effective

**Shiralashetu and Akash** (2006) conducted study on topic, “Management of Non Performing Assets in Commercial Banks-Some Issues” and observed that NPAs were higher in public sector banks i.e. 76.61 per cent than in private sector and foreign banks. They further concluded that NPAs were more in the non-priority sector (i.e. 55.83% of total) than in public and priority sectors as on March 31, 2003. Within the priority sector, the SSI sector had the largest share of NPAs i.e. 41.72 per cent of total NPAs.

**Malhotra.M** (2014) analyzed that NPAs pose a notable threat for the Banks in India. Hence they must be managed properly and certain curative measures should be taken for the healthy and stable environment of banks in India. Recession had been considered another major reason for rising NPAs in Indian banks.

. **Bhatt** (2007) observed that inability to gauge the importance of transparency, accountability and prudential norms in the operations of the banking system resulted in an increased burden of non performing assets (NPAs). Low operational efficiency, unhealthy balance sheets and unsatisfactory customer service further threatened the very stability of the financial system.

**Pevekar and Ashvine** (2006) emphasized the role of public relations personnel in reducing NPAs. They concluded that public relations people should be sensitized to realize that they were the key persons in improving relations between banks and customers. It would make the banks more customer focused and further help in reducing NPAs.

A review of available literature shows that though a lot of studies have been conducted on NPA management in banks but impact of NPAs on profits of the bank has not got due importance. Therefore we have planned to conduct this study i.e. “Impact of NPAs on profitability of Indian banks.”

An attempt has been made, in this paper, to evaluate the impact of quality of assets and NPAs on the profitability of the selected public sector and private sector banks of Punjab.

### **Objective**

To evaluate NPA management in commercial banks of India.

## **3. RESEARCH METHODOLOGY**

### **Sample Size**

The universe of our study consists of all private sector banks and all public sector banks operating in India. Four private sector banks and four public sector banks have been selected on the basis of average gross NPAs. Last three years average of gross NPAs to loan outstanding ratio was calculated. Two banks with highest average ratio and two with lowest ratio was selected as a sample for this study.

### **Data Collection and Analysis**

Study is based upon secondary data collected from annual reports of selected banks and RBI reports for a period of ten years i.e. 2007-08 to 2015-16. Suitable mathematical and statistical tools such as Coefficient of variation, compound growth rates, T-test had been used to analyze the data and draw the conclusions.

## **4. IMPACT OF NPAs ON PROFITABILITY OF BANKS**

Advances and investments are major components of assets of banking organization. Quality of these assets directly affects the profits and profitability of a bank. Poor quality of these assets results in NPAs and provision at certain rates has to be made by debiting profits of the company. If these assets are of good quality and NPAs are minimum then less provisions is made for NPA and for depreciation of investment and NPI, therefore it results in higher profits. On the other hand, if these assets are of poor quality, then more provision is required for NPA, and depreciation of investment. Higher provisions decline the profits of bank. Hence quality of assets has the significant and notable impact on profitability of banks.

An attempt has been made, in this chapter, to evaluate the impact of Non Performing Assets (NPAs) on the profitability of the selected public sector and private sector banks of Punjab. In this paper data analysis was focused on the percentage of provisions for NPA over total advances and percentage of provision for investment over gross investments, and its impact on the profits of the selected banks.

## **5. IMPACT OF PROVISIONS ON PROFITABILITY OF PRIVATE SECTOR BANKS**

To ascertain the impact of asset quality on profitability of bank, it is vital to evaluate and analyze the provisions for NPA and depreciation of investment and NPI. Firstly attempt has been made to evaluate and analyze these provisions of selected private sector banks i.e. Catholic Syrian Bank, Dhanlaxmi Bank, Ratnakar Bank, Yes Bank.

## 6. PROVISIONS OF CATHOLIC SYRIAN BANK

Table 1 depicts provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Catholic Syrian Bank. In absolute terms, provision made for NPA remained fluctuating. Initially it rose from ₹7.78cr in the year 2007 to ₹11.91cr in the next year. Then it declined to ₹4.32cr in the year 2010. Afterwards it started soaring and eventually reached to ₹134.45cr in the concluding year of study i.e. 2016, registering compound growth rate at 41.75% significant at 1%. Provisions for depreciation of investment and NPI also remained fluctuating. Initially it shrank from ₹3.77cr in 2007 to ₹0.17cr in the year 2010, later on it elevated to ₹15.25cr in the final year of study i.e. 2016. Total provisions had also recorded fluctuation in its trend. Initially it descended from ₹11.55cr in the year 2007 to ₹4.49cr in the year 2010 and afterwards it climbed to ₹149.7cr in the terminal year of study i.e 2016. Hence increase in total provisions deteriorating inferior quality of assets, which had adversely affected the profitability of bank.

**Table 1**  
**Provisions of Catholic Syrian Bank Ltd. (₹ in crores)**

<i>Year</i>	<i>Provisions made for NPA</i>	<i>(%)</i>	<i>Provisions made on investment</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
2016	134.45	1.71	15.25	0.25	149.7	1.08
2015	90.07	0.95	13	0.29	103.07	0.74
2014	65.5	0.75	4.56	0.09	70.06	0.51
2013	39.18	0.44	2.63	0.08	41.81	0.34
2012	14.04	0.18	1.39	0.04	15.43	0.14
2011	8.55	0.14	0.26	0.01	8.81	0.10
2010	4.32	0.10	0.17	0.01	4.49	0.07
2009	7.78	0.21	0.53	0.02	8.31	0.14
2008	11.91	0.36	3.72	0.20	15.63	0.30
2007	7.78	0.26	3.77	0.24	11.55	0.25
Average	38.36		4.53		42.89	
C.V.	116.11		117.46		115.50	
C.G.R.	41.75		28.98		38.87	
t-value	4.40**		1.45		3.65**	

\* significant at 5%, \*\* significant at 1%

Source: Annual Reports of Catholic Syrian Bank and statistics of RBI

In percentage terms, provisions for NPA to total advances remained fluctuating throughout the period of study. Initially it increased from 0.26% in the year 2007 to 0.36% in the next year, then it dropped to 0.10% in 2010 and eventually it up surged to 1.71% in the terminal year of study i.e. 2016. Percentage of provisions made for depreciation of investment and NPI to the gross investment, also remained fluctuating in the period of study. In the year 2007, it was 0.24%, then it dropped to 0.01% in the year 2011, and then it climbed to 0.29 % in the year 2015 and slipped to 0.25% in the terminal year of study. Ultimately its trend remained constant in the period of study. Total provisions made during the year for NPA and investment had initially increased from 0.25% in the year 2007 to 0.30% in the next year then it dropped to 0.07% in the year 2010, afterwards it persistently increased to 1.08 % in the terminal year of study i.e. 2016. It had ultimately increased in the period of study.

Though provisions made for investments had shown stability in percentage terms which exhibits that bank management had been able to maintain the quality of this portfolio but it had minimum affect on profitability of bank. However substantial increase in provisions made for NPA and percentage of provision for NPA depicts the deteriorating quality of assets which adversely affected the profitability of bank.

## 7. PROVISIONS OF DHANLAXMI BANK

Table 2 demonstrates provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Dhanlaxmi Bank. It revealed that in absolute terms provisions for NPA remained fluctuating during the period of study. Initially it dropped from ₹16.92cr in 2007 to ₹11.14cr in the next year. Then it continuously escalated to ₹312.67cr and eventually shrank to ₹135.8cr in the final year of study i.e 2016, registering compound growth rate at 45.54% significant at 1%. Provisions made for depreciation of investment and NPI remained fluctuated. Initially it shrank from ₹7.37cr in 2007 to ₹3.31cr in the next year. Then it rose to ₹5.92cr in 2009 but again slipped to ₹0.67cr in 2010. Afterwards it started soaring marginally and reached to ₹7.51cr in 2013 and in the next year it skyrocketed to ₹97.47cr, later on it contacted to ₹19.03cr in the concluding year i.e. 2016. Total provisions had also shown its fluctuating trend. Initially it had substantially decreased from ₹24.29cr in the year 2007 to ₹14.45cr in the next year. Then it rose to ₹17.97cr in 2009 but again slipped to ₹13.52cr in the next year. Afterwards it continuously ascended to ₹343.76cr and lastly dwindled to ₹154.83cr in the concluding year of study i.e. 2016.

**Table 2**  
**Provisions of Dhanlaxmi Bank (₹ in crores)**

<i>Year</i>	<i>Provisions made for NPA</i>	<i>(%)</i>	<i>Provisions made on investment</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
2016	135.8	1.95	19.03	0.49	154.83	1.43
2015	312.67	4.08	31.09	0.68	343.76	2.81
2014	171.68	2.16	97.47	2.12	269.15	2.15
2013	100.3	1.29	7.51	0.17	107.81	0.88
2012	23.31	0.27	7.16	0.16	30.47	0.23
2011	15.9	0.18	1.12	0.03	17.02	0.13
2010	12.85	0.26	0.67	0.03	13.52	0.19
2009	12.05	0.38	5.92	0.38	17.97	0.38
2008	11.14	0.53	3.31	0.31	14.45	0.45
2007	16.92	0.92	7.37	0.83	24.29	0.89
Average	81.26		18.07		99.33	
C.V.	123.89		162.71		121.03	
C.G.R.	45.54		33.22		43.16	
t-value	4.42**		1.79		3.87**	

\*significant at 5%, \*\* significant at 1%

Source: Annual Reports of Dhanlaxmi Bank and statistics of RBI

In percentage terms, provisions for NPA to total advances remained fluctuating. Initially it slipped from 0.92% in the year 2007 to 0.18 % in the year 2011, afterwards it climbed to 4.08% and eventually it dived to 1.95% in the terminal year of study. Ultimately it had increased in the period of study. Table 2

evinces that the percentage of provisions made for depreciation of investment and NPI to the gross investment also remained fluctuating in the period of study. In the year 2007, it was 0.83%, then it dropped to 0.31% in the next year but increased to 0.38% in 2009. Then it descended to 0.03% in 2011 but again it rose to 2.12% in the year 2014 and eventually it slipped to 0.49 % in the terminal year of study i.e. 2016. Ultimately, its trend had declined in the period of study. Percentage of total provisions made during the year for NPA and investment had also registered fluctuating trend. It dropped initially from 0.89% in the year 2007 to 0.13% in the year 2011, afterwards it climbed to 2.81 % in the year 2015 and lastly it dropped to 1.43% in the terminal year of study i.e. 2016.

Though in percentage terms, decline in provisions made for investments had revealed that bank management had been able to maintain the quality of this portfolio but it had minimum effect on profitability of bank which showed the positive impact on profitability of bank. However, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets, which had adversely affected the profitability of bank.

### 8. PROVISIONS OF RATNAKAR BANK

Provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Ratnakar Bank has been revealed in Table 3 In absolute terms, Provisions made for NPA remained fluctuating throughout the period of study. Initially it rose from ₹1.35cr in 2007 to ₹3.76cr in the next year. Then it declined to ₹2.23cr in 2009 but again climbed to ₹6.82cr in the next year. Afterwards it remained swinging and eventually reached to ₹81.38cr in the last year of study i.e. 2016, registering compound growth rate at 50.79% significant at 1%. Provisions for depreciation of investment and NPI had also remained fluctuating. Initially it rose from ₹0.54cr in 2007 to ₹4.49cr in the next year and then it shrank to ₹0.08cr in the year 2010. Afterwards it started rising and skyrocketed to ₹92.02cr in 2014. Then it dropped to ₹9.62cr in 2015 later on it elevated to ₹27.1cr in the terminal year of study i.e. 2016. Total provisions had also registered fluctuation throughout the period of study. In the beginning, it increased from ₹1.89cr in the year 2007 to ₹8.25cr in the next year. Then it decreased to ₹3.42cr in 2009 but again rose to ₹6.9cr in the next year. It remained oscillating and finally reached to ₹108.48cr in the concluding year of study i.e year 2016.

**Table 3**  
**Provisions of Ratnakar Bank Ltd (₹ in crores)**

<i>Year</i>	<i>Provisions made for NPA</i>	<i>(%)</i>	<i>Provisions made on investment</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
2016	81.38	0.38	27.1	0.19	108.48	0.30
2015	32.02	0.22	9.62	0.10	41.64	0.17
2014	33.06	0.34	92.02	1.41	125.08	0.76
2013	10.35	0.16	5.5	0.10	15.85	0.13
2012	12.08	0.29	5.24	0.22	17.32	0.27
2011	3.84	0.20	1.34	0.15	5.18	0.18
2010	6.82	0.58	0.08	0.02	6.9	0.41
2009	2.23	0.28	1.19	0.29	3.42	0.28
2008	3.76	0.64	4.49	1.23	8.25	0.87
2007	1.35	0.25	0.54	0.17	1.89	0.22

### Impact of NPAs on Profitability of Indian Banks

Year	Provisions made for NPA (%)	Provisions made on investment (%)	Total (%)
Average	18.69	14.71	33.40
C.V.	133.27	192.41	136.47
C.G.R.	50.79	58.86	52.36
t-value	7.18**	2.21	4.81**

\*significant at 5%, \*\*significant at 1%

Source: Annual Reports of Ratnakar Bank Ltd and statistics of RBI

It is revealed that percentage of provisions for NPA to total advances remained fluctuating. Initially it climbed from 0.25% in the year 2007 to 0.64 % in the next year. Afterwards it dropped to 0.28% in the year 2009 and then it again rose to 0.58% in 2010. It remained swinging continuously and eventually reached to 0.38% in the terminal year of study. Ultimately its trend had increased in the period of study. Percentage of provisions made for depreciation of investment and NPI to the gross investment, had also remained fluctuating in the period of study. In the year 2007, it was 0.17% which rose to 1.23% in the next year then it dropped to 0.02% in the year 2010. Afterwards it ascended to 0.22% in 2012 but it slipped to 0.10% in the next year. Again it rose to 1.41% in 2014 and then dived to 0.10% in 2015 and eventually it climbed to 0.19 % in the terminal year of study i.e. 2016. Ultimately, it had shown stability the period of study. Percentage of total provisions made during the year for NPA and investment had also remained fluctuating. In the beginning it raised from 0.22% in the year 2007 to 0.87% in the next year. Then it dropped to 0.28% in 2009 but again it rose to 0.41% in 2010. Its trend remained oscillating in the entire period and ultimately reached to 0.30 % in the terminal year of study i.e. 2016.

Though provisions made for investments had shown stability in percentage terms which exhibits that bank management had been able to maintain the quality of this portfolio but it had minimum affect on profitability of bank. However substantial increase in provisions made for NPA and percentage of provision for NPA depicts the deteriorating quality of assets which adversely affected the profitability of bank.

## 9. PROVISIONS OF YES BANK

Table 4 depicts provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Yes Bank. In absolute terms, provisions for NPA remained fluctuating throughout the period of study. Initially it increased sharply from nil in 2007 to ₹121.6cr in 2010. Then it slipped to ₹49.19cr in 2011 but again climbed to ₹160.1cr in 2013. Afterwards it slightly slipped to ₹158.8cr in 2014 and then it sharply escalated to ₹565.8cr in the concluding year of study i.e 2016, registering compound growth rate at 126.8% significant at 5%. Provisions for depreciation of investment and NPI had also registered fluctuating trend. It revealed increase from ₹3.09cr in the year 2007 to ₹13.31cr in the next year then it dropped to 0 in 2009. Again it rose to ₹15.4cr in 2010 and then dropped to 0 in the next year. It remained in fluctuating trend till it reached to ₹9.09cr in the final year of study i.e.2016. Total provisions also recorded fluctuation throughout the period of study. In the beginning it had substantially increased from ₹3.09 cr in the year 2007 to ₹137cr in 2010. Afterwards it dropped to ₹49.19cr in 2011 and then it sharply elevated to ₹244.8cr in 2014. Further it slipped to ₹194.1cr in the next year but eventually increased to ₹574.89cr in the terminal year of study i.e. 2016.

**Table 4**  
**Provisions of Yes Bank Ltd (₹ in crores)**

Year	Provisions made for NPA	(%)	Provisions made on investment	(%)	Total	(%)
2016	565.8	0.58	9.09	0.02	574.89	0.39
2015	189.4	0.25	4.7	0.01	194.1	0.16
2014	158.8	0.29	86	0.21	244.8	0.25
2013	160.1	0.34	0	0.00	160.1	0.18
2012	51.43	0.14	16.01	0.06	67.44	0.10
2011	49.19	0.14	0	0.00	49.19	0.09
2010	121.6	0.55	15.4	0.15	137	0.42
2009	55.27	0.45	0	0.00	55.27	0.28
2008	2.43	0.03	13.31	0.26	15.74	0.11
2007	0	0.00	3.09	0.10	3.09	0.03
Average	135.40		14.76		150.16	
C.V.	122.21		174.97		112.60	
C.G.R.	126.82		22.20		55.50	
t-value	2.41*		0.45		4.47**	

\*significant at 5%, \*\* significant at 1%

Source: Annual Reports of Yes Bank Ltd and statistics of RBI

It is revealed by Table 4 that percentage of provisions for NPA to total advances remained fluctuating. Initially it rose from 0% in the year 2007 to 0.55 % in the year 2010; afterwards it dropped to 0.14% in 2012 and eventually reached to 0.58% the terminal year of study. Ultimately it had increased in the period of study. Percentage of provisions made for depreciation of investment and NPI to the gross investment, had also revealed fluctuating trend in the period of study. In the year 2007, it was at 0.10%, which rose to 0.26% in the next year then it dropped to 0.0% in the year 2009, but again it rose to 0.15% in 2010 and then slipped to 0 in the next year. Afterwards it consistently registered fluctuations and eventually it reached to 0.02 % in the terminal year of study i.e. 2016. Ultimately, it had shown decline in the period of study. Percentage of total provisions made during the year for NPA and investment had also remained fluctuating in the period of study. Initially it had shown an increase from 0.03% in the year 2007 to 0.42% in 2010. Then it dropped to 0.09% in the next year but again climbed to 0.25% in 2014. Afterwards it dropped slightly to 0.16% in 2015 and lastly it up surged to 0.39%% in the terminal year of study i.e. 2016.

Though in percentage terms, decline in provisions made for investments had revealed that bank management had been able to maintain the quality of this portfolio but it had minimum effect on profitability of bank which showed the positive impact on profitability of bank. However, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets, which had adversely affected the profitability of bank.

## 10. IMPACT OF PROVISIONS ON PROFITABILITY OF PUBLIC SECTOR BANKS

To ascertain the impact of asset quality on profitability of bank, it is vital to evaluate and analyze the provisions for NPA and depreciation of investment and NPI. After analyzing provisions of selected private



sector banks, attempt has been made to evaluate and analyze these provisions of selected public sector banks i.e. Indian Overseas Bank, Syndicate Bank, United Bank of India and Vijaya Bank.

### 11. PROVISIONS OF INDIAN OVERSEAS BANK

Table 5 depicts provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Indian Overseas Bank In absolute terms, provision for NPA had initially dived from ₹135.31cr in the year 2007 to ₹125.44cr in 2008. Afterwards it substantially and continuously ascended to ₹7348.26cr in the concluding year i.e.2016, registering compound growth rate at 47.90% significant at 1%. Provisions for depreciation of investment and NPI also remained fluctuating. Initially it climbed from ₹54.81cr in 2007 to Rs.253.23cr in the year 2009; then it dropped to ₹59.34cr in 2011. Afterwards it rose to ₹189.84cr but again dropped to ₹175.1cr in 2013. In the next year it climbed to ₹453.53cr and eventually it dwindled to ₹158.16cr in the final year 2016. Total provisions had substantially increased from ₹190.12cr in the year 2007 to ₹1324.74cr in 2010, and then it slightly dropped to ₹1316.13cr in next year. Afterwards it up surged to ₹7506.42cr in the year 2016.

**Table 5**  
**Provisions of Indian Overseas Bank (₹ in crores)**

<i>Year</i>	<i>Provisions made for NPA</i>	<i>(%)</i>	<i>Provisions made on investment</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
2016	7348.26	4.57	158.16	0.21	7506.42	3.17
2015	3529.31	2.05	83.68	0.11	3612.99	1.46
2014	2210.8	1.26	453.53	0.67	2664.33	1.09
2013	2198.82	1.37	175.1	0.29	2373.92	1.08
2012	1470.16	1.04	189.84	0.35	1660	0.85
2011	1256.79	1.12	59.34	0.12	1316.13	0.82
2010	1183.66	1.50	141.08	0.38	1324.74	1.14
2009	365.5	0.49	253.23	0.83	618.73	0.59
2008	125.44	0.21	184.95	0.67	310.39	0.35
2007	135.31	0.29	54.81	0.23	190.12	0.27
Average	1982.41		175.37		2157.78	
C.V.	109.21		66.28		100.51	
C.G.R.	53.14		5.42		43.46	
t-value	7.66**		0.70		10.02**	

\* significant at 5%, \*\* significant at 1%

Source: Annual Reports of Indian Overseas Bank and statistics of RBI

It is revealed that percentage of provisions for NPA to total advances remained fluctuating in the period of study. In the beginning it shrank from 0.29% in the year 2007 to 0.21% in 2008. Then it ascended to 1.5% in 2010. But again it contracted to 1.04% in 2012. In the next year it climbed to 1.37% but again dived to 1.26% in 2014. And ultimately it increased to 4.57% in the terminal year of study i.e. 2016. Percentage of provisions made for depreciation of investment and NPI to the gross investment, had also remained fluctuating in the period of study. In the year 2007, it was 0.23%, and then it increased to 0.83%

in the year 2009. Afterwards it dropped to 0.12% in 2011 but again rose to 0.35% in the next year. After that it enhanced to 0.67% in 2014 but again dropped to 0.11% in the next year. Eventually it climbed to 0.21 % in the terminal year of study i.e.2016. Ultimately it remained constant in the period of study. Total provisions made during the year for NPA and investment had ascended substantially from 0.27% in the year 2007 to 1.14% in 2010 and then it slipped to 0.82% in the next year. Afterwards it continuously and sharply elevated to 3.17 % in the terminal year of study.

Though provisions made for investments had shown stability in percentage terms which exhibits that bank management had been able to maintain the quality of this portfolio but it had minimum affect on profitability of bank. However substantial increase in provisions made for NPA and percentage of provision for NPA depicts the deteriorating quality of assets which adversely affected the profitability of bank.

## **12. PROVISIONS OF SYNDICATE BANK**

Table 6 depicts provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Syndicate Bank In absolute terms, provision for NPA had ascended from ₹304.25cr to ₹385.87cr in the next year. Then it dropped to ₹380.83cr in 2009 But then it substantially increased to ₹1399.75cr in 2012. Afterwards it dropped to ₹989.88cr in 2014 and eventually it skyrocketed to ₹3820.16cr in the year 2016, registering compound growth rate at 28.03% significant at 1%. Provisions for depreciation of investment and NPI remained fluctuating and revealed marginal increase in its trend ultimately. Initially it shrank from ₹114.87cr in 2007 to ₹21.88cr in the next year. And then it rose to ₹100.49cr in the next year but again diminished to ₹7cr in the year 2011 and then finally it elevated to ₹220.89cr in the concluding year 2016. Total provisions also remained fluctuating throughout the period of study. In the beginning it dropped from ₹419.92cr in the year 2007 to ₹407.75cr in 2008. And then it increased continuously to ₹1427.21cr in 2012. In the next year it dropped to ₹1163.34cr but finally it elevated continuously to ₹4041.05cr in the last year of study.2016.

Table 6 evinces that percentage of provisions for NPA to total advances remained fluctuating. Initially it rose 0.59% in the year 2007 to 0.60% in the next year, Then it continuously climbed to 1.13% in 2012. After that it declined to 0.57% in 2014 then it eventually it ascended to 1.90% in the terminal year of study Ultimately, its trend had increased in the period of study. Percentage of provisions made for depreciation of investment and NPI to the gross investment, had also remained fluctuating in the period of study. In the year 2007, it was at 0.46%, then it dropped to 0.08% in the next year but then it rose to 0.33% in the year 2009 and then shrank to 0.02% in 2011. Afterwards it rose to 0.34% in 2014 but again dropped to 0.08% in the next year and finally climbed to 0.32% in the terminal year of study i.e.2016. Ultimately, its trend had declined in the period of study. Percentage of total provisions made during the year for NPA and investment had dropped initially from 0.55% in the year 2007 to 0.43% in the year 2009, but then it elevated to 0.87% in 2012 afterwards it decreased to 0.51% in 2014 and ultimately rose to 1.50% in the terminal year of study i.e. 2016.

Though in percentage terms, decline in provisions made for investments had revealed that bank management had been able to maintain the quality of this portfolio but it had minimum effect on profitability of bank which showed the positive impact on profitability of bank. However, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets, which had adversely affected the profitability of bank.

**Table 6**  
**Provisions of Syndicate Bank (₹ in crores)**

Year	Provisions made for NPA	(%)	Provisions made on investment	(%)	Total	(%)
2016	3820.16	1.90	220.89	0.32	4041.05	1.50
2015	1729.33	0.85	54.23	0.08	1783.56	0.66
2014	989.88	0.57	191	0.34	1180.88	0.51
2013	1135.44	0.77	27.9	0.06	1163.34	0.60
2012	1399.75	1.13	27.46	0.07	1427.21	0.87
2011	905.92	0.85	7	0.02	912.92	0.64
2010	530.56	0.59	15.51	0.05	546.07	0.44
2009	380.83	0.47	100.49	0.33	481.32	0.43
2008	385.87	0.60	21.88	0.08	407.75	0.44
2007	304.25	0.59	114.87	0.46	419.12	0.55
Average	1158.20		78.12		1236.32	
C.V.	90.50		98.02		88.26	
C.G.R.	28.03		11.92		25.84	
t-value	7.08**		0.84		7.16**	

\*significant at 5%, \*\* significant at 1%

Source: Annual Reports of Syndicate Bank and statistics of RBI

### 13. PROVISIONS OF UNITED BANK OF INDIA

Table 7 depicts provisions made for NPA and provisions made for depreciation of investment and NPI during the year of United Bank of India. In absolute terms, provision for NPA had ascended from ₹231.54cr to ₹244.99cr in the next year. Then it dropped to ₹196cr in 2009. But then it substantially increased to ₹1908.68cr in 2014. Afterwards it dropped to ₹792.12cr in the next year and eventually it increased to ₹1769.17cr in the terminal year of study i.e. 2016, registering compound growth rate at 32.91% significant at 1%. Provisions for depreciation of investment and NPI remained fluctuating throughout the period of study and revealed a notable decrease in its trend ultimately. Initially it shrank from ₹139.6cr in 2007 to ₹73.05cr in the next year. And then it rose to ₹248.29cr in the next year i.e. 2009 but again diminished to ₹86.49cr in the year 2010. After that it climbed to ₹183.62cr in 2012 but again slipped to ₹69.98cr in 2015 and then finally it elevated to ₹123.49cr in the concluding year 2016. Total provisions also remained fluctuating. In the beginning it dropped from ₹371.14cr in the year 2007 to ₹318.04cr in 2008. After that it rose to ₹444.29cr in 2009 but again dropped to ₹359.2cr in 2010. And then it increased continuously and substantially to ₹2030.72cr in 2014. In the next year it dropped to ₹862.1cr but finally it elevated to ₹1892.66cr in the last year of study 2016.

Percentage of provisions for NPA to total advances remained fluctuating throughout the period of study. Initially it dropped from 1.05% in the year 2007 to 0.55% in the year 2009, Then it continuously climbed to 2.90% in 2014. After that it declined to 1.19% in 2015 then it eventually it ascended to 2.60% in the terminal year of study. Ultimately, its trend had increased in the period of study. Percentage of provisions made for depreciation of investment and NPI to the gross investment, had also remained fluctuating in the period of study. In the year 2007, it was at 0.92%, then it dropped to 0.38% in the next year but then it

**Table 7**  
**Provisions of United Bank of India (₹ in crores)**

Year	Provisions made for NPA	(%)	Provisions made on investment	(%)	Total	(%)
2016	1769.17	2.60	123.49	0.27	1892.66	1.68
2015	792.12	1.19	69.98	0.16	862.1	0.78
2014	1908.68	2.90	122.04	0.27	2030.72	1.83
2013	1010.45	1.47	132.08	0.39	1142.53	1.11
2012	689.95	1.09	183.62	0.63	873.57	0.95
2011	419.18	0.78	151.83	0.57	571.01	0.71
2010	272.71	0.64	86.49	0.33	359.2	0.52
2009	196.00	0.55	248.29	1.34	444.29	0.82
2008	244.99	0.88	73.05	0.38	318.04	0.68
2007	231.54	1.05	139.6	0.92	371.14	1.00
Average	753.48		133.05		886.53	
C.V.	84.20		40.55		70.84	
C.G.R.	32.91		-8.21		22.24	
t-value	6.68**		2.50*		5.10**	

\*significant at 5%, \*\* significant at 1%

Source: Annual Reports of United Bank of India and statistics of RBI

rose to 1.34 % in the year 2009 and then shrank to 0.33% in 2010. Afterwards it rose to 0.63% in 2012 but again dropped to 0.16% in the year 2015 and finally climbed to 0.27% in the terminal year of study i.e. 2016. Ultimately, it had declined in the period of study. Percentage of total provisions made during the year for NPA and investment had dropped initially from 1.00% in the year 2007 to 0.68% in the next year. Then it rose to 0.82% in 2009 but again dropped to 0.52% in 2010. And then it elevated to 1.83% in 2014 afterwards it decreased to 862.1% in 2015 and ultimately rose to 1.68% in the terminal year of study i.e. 2016.

Though in percentage terms, decline in provisions made for investments had revealed that bank management had been able to maintain the quality of this portfolio but it had minimum effect on profitability of bank which showed the positive impact on profitability of bank. However, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets.

#### 14. PROVISIONS OF VIJAYA BANK

Perusal of Table 8 revealed provisions made for NPA and provisions made for depreciation of investment and NPI during the year of Vijaya Bank. In absolute terms, provision for NPA remained fluctuating throughout the period of study. In the beginning had declined substantially from ₹120.68cr in 2007 to ₹68.28cr in the next year. After that it up surged to ₹475.15cr in 2010. But again it dived to ₹394.67cr in 2012 and at last it rose to ₹1459.38cr in the terminal year of study i.e. 2016, registering compound growth rate at 31.16% significant at 1% Provisions for depreciation of investment and NPI remained fluctuating and revealed marginal increase overall. Initially it elevated from ₹42.46cr in 2007 to ₹242.12cr in the next year, after that it contracted to nil in the year 2010. But again it rose to ₹59.87cr in 2012 and again shrank to nil in 2015, Afterwards it substantially hiked to ₹105.89cr in the year 2016. Total provisions had initially

boosted from ₹163.14cr in the year 2007 to ₹315.4cr in the next year. But dropped to ₹315.4cr in 2008. After that it again ascended to ₹475.15cr in 2010 but again slipped to ₹415.71cr in 2011. It again hiked to ₹454.54cr but dropped to ₹400cr in the year 2014. Eventually it magnified to ₹1565.27cr in the concluding year i.e. 2016.

**Table 8**  
**Provisions of Vijaya Bank (₹ in crores)**

<i>Year</i>	<i>Provisions made for NPA</i>	<i>(%)</i>	<i>Provisions made on investment</i>	<i>(%)</i>	<i>Total</i>	<i>(%)</i>
2016	1459.38	1.64	105.89	0.25	1565.27	1.19
2015	788.88	0.91	0	0.00	788.88	0.62
2014	400.29	0.49	0	0.00	400.29	0.32
2013	437.8	0.63	0	0.00	437.8	0.43
2012	394.67	0.68	59.87	0.21	454.54	0.52
2011	405.27	0.83	10.44	0.04	415.71	0.55
2010	475.15	1.14	0	0.00	475.15	0.76
2009	134.24	0.38	90.69	0.51	224.93	0.42
2008	68.28	0.22	247.12	1.45	315.4	0.65
2007	120.68	0.50	42.46	0.35	163.14	0.45
Average	468.46		55.65		524.11	
C.V.	86.93		140.53		76.83	
C.G.R.	31.16		-47.52		19.57	
t-value	4.94**		1.87		4.49**	

\*significant at 5% \*\* significant at 1%

Source: Annual Reports of Vijaya Bank and statistics of RBI

In percentage terms, provisions for NPA to total advances remained fluctuating during the period of study. Initially it was at 0.5% in the year 2007 then it descended to 0.22% in the next year. After that it mounted up to 1.14% in 2010. Further it decreased to 0.49% and eventually it rose substantially to 1.64% in the closing year of study i.e. 2016. Ultimately its trend had increased in the period of study. Table 8 evinces that percentage of provisions made for depreciation of investment and NPI to the gross investment, had also remained fluctuating in the period of study. In the year 2007, it was at 0.35%, and then it rose to 1.45% in the next year but then dropped to 0.0% in the year 2010 and then it scrambled up to 0.21% in 2012 but again shrank to 0% in the next year, eventually it reached to 0.25 % in the terminal year of study. Ultimately, its trend had declined in the period of study. Percentage of total provisions made during the year for NPA and investment was at 0.45% in the year 2007, which increased to 0.65% in the next year but again declined to 0.42% in 2009. After that it again rose to 0.76% in 2010 but then dived to 0.32% in 2014 and eventually shoot up to 1.19% in the closing year of study 2016.

Though in percentage terms, decline in provisions made for investments had revealed that bank management had been able to maintain the quality of this portfolio but it had minimum effect on profitability of bank which showed the positive impact on profitability of bank. However, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets.

## 15. CONCLUSION

Above analysis showed that in all public and private banks, provisions made for investments in percentage terms had revealed a downward trend which indicates that bank management had been able to manage the quality of this portfolio effectively. However, in all selected public and private banks, increase in provisions made for NPA and percentage of provisions for NPA to total advances revealed deteriorating quality of assets, which had adversely affected the profitability of bank.

## 16. RECOMMENDATIONS

1. Public sector and private sector banks should manage their loan portfolio and quality of assets effectively so that provisions made for NPAs may be curtailed because more provisions adversely affect the profitability of banks
2. Both public sector banks and private sector banks should strengthen their investment portfolio which is less risky and have assured return.
3. Banks should effectively recover old NPAs to reduce rate of provisions created for NPAs in these banks.

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