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Impact of non-performing assets on return on assets of public and private sector banks in India

D Jayakkodi and Dr. P Rengarajan

Abstract
The Banking industry is one of the basic instruments of economic growth. A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sector. Non Performing Assets is one of the major concerns for banks in India. NPAs reflect the performance of banks. The earning capacity and profitability of the banks are highly affected because of the existence of NPAs. A high level of NPAs suggests that large number of credit defaults that affect the profitability and net-worth of banks. The public sector banks have shown very good performance over the private sector banks as far as the financial operations are concerned. However the position of public sector banks is not so good in the area of Non-Performing assets as compared to private sector banks. The study is based on the secondary data retrieved from annual reports of the respective banks. The scope of the study is limited to the analysis of Non-Performing assets of select public and private sector banks. The data has been analysed by statistical tools such as ratio and correlation. The study observed that the private sector banks were more efficient than the public sector banks. In this paper made an attempt to analyse how efficiently the selected public and private sector banks managed their NPAs and to evaluate the impact of NPA on profitability measure on Return on Assets.

Keywords: Public sector banks, private sector banks, gross NPAs, Net NPAs, return on assets

Introduction

The banking industry has undergone a sea change after the first phase of economic liberalisation in 1991. Banking industry serves as the backbone of the financial sector that accumulates saving from surplus units in the form of deposits and provides it to deficit units in the form of loans and advances to various sectors such as agricultural, industry, personal and governments. Loans and advances granted by banks help in meeting the short term and long term financial needs of business enterprises. The banking business is exposed to various risks, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk is loan recovery. The process of lending carries a risk called credit risk, which arises from the failure of borrower. Non-performing assets refers to loans that are in risk in default. Once the borrower has failed to make interest or principle payments for 90 days, then the loan amount is considered to be a Non Performing Assets. Credit is one of the most important assets of the banks. Increasing credit means improving financial soundness of banks. But that is only if it is accompanied by the willingness of the borrowers to pay. NPA does not affect current profit but also future profits, which may lead to loss of some long term beneficial opportunity.

Review of Literature

Goven (1993) in his article, “NPAs on account of priority sector lending”, it was pointed out that there may be only a marginal difference in the NPAs of banks’ lending to priority sector and the bank’s lending to private corporate sector. Against this background, the study suggests that given the deficiencies in these areas, it is imperative that banks need to be guided by fairness based on economic and financial decisions rather than system of conventions, if reform has to serve the meaningful purpose. Experience shows that policies of liberalization, deregulation and enabling environment of comfortable liquidity at a reasonable price do not automatically translate themselves into enhanced credit flow. Although public sector banks have recorded improvements in profitability, efficiency (in terms of intermediation costs) and asset quality in the 1990s, they continue to have higher

interest rate spreads but at the same time earn lower rates of return, reflecting higher operating costs.
Prashanth K. Reddy (2002) [5] in his research paper on the topic, "A comparative study of Non-performing Assets in India in the Global context" examined the similarities and dissimilarities, remedial measures. Financial sector reform in India has progressed rapidly on aspects like interest rate deregulation, reduction in reserve requirements, barriers to entry, prudential norms and risk-based supervision. The study reveals that the sheltering of weak institutions while liberalizing operational rules of the game is making implementation of operational changes difficult and ineffective. Changes required to tackle the NPA problem would have to span the entire gamut of judiciary, polity and the bureaucracy to be truly effective. This paper deals with the experiences of other Asian countries in handling of NPAs. It further looks into the effect of the reforms on the level of NPAs and suggests mechanisms to handle the problem by drawing on experiences from other countries.
Reddy (2003) in their research paper, "NPAs: Threat to Financial Stability", confirmed that financial stability is an essential prerequisite for sustainable long-term economic growth of any country. Banking system being the largest component of financial system should take care to immunize itself from the macro economic shocks through maintaining optimal and quality asset portfolios to achieve the objective of smooth flow of funds into the most economic channels. The Non-Performing Assets were posing a serious threat to this objective of the banking system. The authors concluded that macro and micro level reforms and adherence to cleaner practices on the part of banks, regulator, borrowers and government will enable the system to get rid of the NPAs overhang and let financial system be an essential adjunct for economic growth.

Statement of the Problem
Indian banking system has very serious problem of mounting Non-Performing Assets. Non-Performing Assets are universal problem for all banks irrespective of the sector. The soundness of a bank may be seriously impaired if its asset quality is poor. Non -performing assets require provisioning/write off, which affects banks' profitability and their ability to strengthen their capital position. In case the provisioning or write off results in net losses, it could also erode bank's capital position. Therefore, apart from sound capital position, it is necessary that banks maintain high asset quality. The level of non-performing loans is recognized as a critical indicator for assessing banks' credit risk, asset quality and efficiency in allocation of resources to productive sectors. Reflecting the success of financial sector reforms and regulatory and supervisory process in particular, banks have made substantial progress in cleaning up the NPAs from their balance sheets. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The earning capacity and profitability of many banks has been badly affected by the high level of NPAs, controlling the growing NPAs becomes a challenging task in Indian scenario. There is a need to manage the ever increasing level of NPAs. Keeping this view the present study has undertaken.

Objective of the Study
- To analyse the trend in NPA ratio of select Public and Private Sector Banks.
- To study the relationship between the Gross NPA and profitability measure (ROA) of select Public and Private Sector Banks.

Research Design
The study is descriptive in nature. The present study was mainly based on secondary data which were collected from annual reports of the respective banks. The researcher has taken four major public and private sector banks in India. These Eight banks were purposively selected for the study, keeping in view that their role and involvement in shaping the economic condition of India. The selected banks are as under: Public Sector Banks: State Bank of India, Punjab National Bank, Bank of Baroda and Bank of India. Private Sector Banks: ICICI Bank, HDFC Bank, Axis Bank and Federal Bank. The study is done on the basis of data for the period of 5 years from 2010-11 to 2014-15.

Statistical Tools Used
The collected data were analysed by using the appropriate statistical tools and techniques. The tools applied for the purpose of the analysis are

- Ratio Analysis
  - Gross NPA Ratio
  - Net NPA Ratio
  - Problem Asset Ratio
  - Depositors Safety Ratio
  - Shareholders risk ratio
  - Return on assets ratio
- Correlation analysis

Analysis and Interpretation
The strength and soundness of the banking system primarily depends upon the quality of assets. Gross NPA reflects the quality of the loans made by banks, while Net NPA shows the actual burden of banks.

Gross NPA Ratio
Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account. Gross NPA reflects the quality of the loans made by Banks. It consists of all the Non-standard assets like as sub-standard, doubtful and loss assets. It can be calculated with the help of the following ratio:

Gross NPAs Ratio = Gross NPAs / Gross Advances

Table 1: Gross NPA Ratio of Selected Public and Private Sector Banks in India

Year	Public Sector Banks				Private Sector Banks			
	SBI	PNB	BOB	BOI	ICICI	HDFC	AXIS	FEDERAL
2010-11	3.28	1.79	1.36	2.23	4.47	1.05	1.01	3.49
2011-12	4.44	2.93	1.53	2.34	3.62	1.02	0.94	3.35
2012-13	4.75	4.27	2.39	2.99	3.22	0.97	1.06	3.44

2013-14	4.95	5.25	2.94	3.15	3.03	1.00	1.22	2.46
2014-15	4.25	6.55	3.71	5.39	3.78	0.90	1.34	2.04

Source: Computed from the Annual reports of the respective Banks

From table 1, it can be seen that at the end of 2010-11, Gross NPA Ratio of SBI bank was 3.28 percent. While at the end of 2014-15, it was 4.25 percent, with the highest being 4.95 percent at the end of the year 2013-14.In PNB, the Gross NPA ratio was 1.79 percent at the end of 2010-11 and it was increased to 6.55 percent at the end of 2014-15 and it being the highest. At the end of 2010-11, this ratio of BOB was 1.36 percent while at the end of 2014-15, it was 3.71 percent and it being the highest. In BOI, the Gross NPA ratio was 2.23 percent at the end of 2010-11 and it was increased to 5.39 percent at the end of 2014-15 and it being the highest. It is observed that the Gross NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study. In Private Sector Banks, it can be seen that at the end of 2010-11, Gross NPAs to gross advances ratio of ICICI bank was 4.47 percent while at the end of 2014-15, it was 3.78 percent. At the end of 2010-11, Gross NPA ratio of HDFC bank was 1.05 percent while at the end of 2014-15, it was 0.90 percent. In AXIS bank, this ratio was 1.01 percent at the end of 2010-11 and it was increased to 1.34 percent at the end of 2014-15. At the end of 2010-11, Gross NPA ratio of FEDERAL bank was 3.49 percent while at the end of 2014-15, it was 2.04 percent. It is observed that the Gross NPA ratio has shown a declining trend in ICICI, HDFC and FEDERAL Banks.

2. Net NPA Ratio

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks**.** Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated by following ratio:

Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

Table 2: Net NPA Ratio of Selected Public and Private Sector Banks in India

Year	Public Sector Banks				Private Sector Banks			
	SBI	PNB	BOB	BOI	ICICI	HDFC	AXIS	FEDERAL
2010-11	1.63	0.85	0.35	0.92	1.11	0.19	0.26	0.60
2011-12	1.82	1.52	0.54	1.47	0.73	0.20	0.25	0.53
2012-13	2.09	2.35	1.28	2.05	0.77	0.20	0.32	0.98
2013-14	2.57	2.85	1.52	1.99	0.97	0.30	0.40	0.74
2014-15	2.12	4.06	1.89	3.36	1.61	0.20	0.44	0.73

Source: Computed from the Annual reports of the respective Banks

From the table -2, it is observed that Net NPA ratio increased from 1.63 percent to 2.12 percent in SBI Bank, in the case of PNB, this ratio increased from 0.85 percent to 4.06 percent. Whereas in the case of BOB, this ratio increased from 0.35 percent to 1.89 percent, in case of BOI, this ratio increased from 0.92 percent to 3.36 percent during 2010-2011 to 2014-2015. It is observed that the Net NPAs ratio has shown an increasing trend in selected Public Sector Banks over the period of study. In Private Sector Banks, it is observed that Net NPA ratio of ICICI Bank increased from 1.11 percent in 2010-11 to 1.61 percent in 2014-15.In HDFC Bank, this ratio was increased from 0.19 percent in 2010-11 to 1.34 percent in 2014-15, whereas in the case of AXIS Bank it was increased from 0.26 percent to 0.44 percent during the same period. In FEDERAL Bank, this ratio was fluctuating trend over the period of study. It is observed that Net NPA ratio has shown an increasing trend in selected private sector banks over the period of study

3. Problem Assets Ratio

The problem assets ratio shows the proportion of gross NPA to total assets. Problem assets ratio has direct bearing on return on asset as well as the liquidity risk management of the bank. High Problem Assets Ratio means high illiquid. The Gross NPA beyond certain percentages of total assets will cripple the total business performance of the bank.

Problem Assets Ratio=Gross NPA / total assets

Table 3: Problem assets Ratio of Selected Public and Private Sector Banks in India

Year	Public Sector Banks				Private Sector Banks			
	SBI	PNB	BOB	BOI	ICICI	HDFC	AXIS	FEDERAL
2010-11	2.06	1.16	0.87	1.38	2.47	0.61	0.66	2.23
2011-12	2.97	1.91	0.99	1.54	2.00	0.59	0.63	2.15
2012-13	3.27	2.82	1.46	1.94	1.79	0.58	0.70	2.17
2013-14	3.44	3.44	1.80	2.07	1.77	0.61	0.82	1.46
2014-15	2.77	4.27	3.80	3.59	2.34	0.58	0.89	1.28

Source: Computed from the Annual reports of the respective Banks

Table 3 shows the Problem Assets Ratio of Selected Public and Private Sector Banks in India. In SBI, the Problem Assets Ratio is 2.06 percent in 2010-11 and then it is increased to 2.77 percent in 2014-15.In PNB this ratio increased from1.16 percent in 2010-11 and then it is increased to 4.27 percent in 2014-15.In BOB this ratio was 0.87 percent in 2010-11 and then it is increased to 3.80 percent in 2014-15.In BOI this ratio was 1.38 percent in 2010-11 and then it is increased to 3.59 percent in 2014-15.There is an increasing trend in all selected public sector banks during the study period except the state bank of India, there is a fluctuating trend in SBI. In private sector banks, the problem assets ratio of ICICI Bank is 2.47 percent in 2010-11 and then it is decreased to 2.34 percent in 2014-15. In HDFC bank this ratio is 0.61 percent in 2010-11 and then it is decreased to 0.58 percent in 2014-15.In AXIS Bank this ratio is 0.66 percent in 2010-11 and then it is increased to 0.89 percent in 2014-15. In FEDERAL Bank this ratio is 2.23 percent in 2010-11 and then it is decreased to 1.28 percent in 2014-15. It is observed that ICICI Bank and FEDERAL Bank shows the decreasing trend and the AXIS Bank shows gradually increased and the HDFC Bank shows the fluctuating trend in problem assets Ratio. It seems that more attention given by the management to the proportion of gross NPA and total assets of the bank.

4. Depositors Safety Ratio

Due to awareness of depositors towards safety of their money deposited in a bank they are forced by study the proportion of standard assets of the bank by the outside liabilities. This Ratio indicates the degree of safety of the depositor's money. High ratio means high safety to the depositors.

Depositors Safety Ratio = total standard assets/total outside liabilities

Table 4: Depositors Safety Ratio of Selected Public and Private Sector Banks in India

Year	Public Sector Banks				Private Sector Banks			
	SBI	PNB	BOB	BOI	ICICI	HDFC	AXIS	FEDERAL
2010-11	64.45	67.34	67.64	63.42	61.07	63.37	70.09	68.52
2011-12	68.22	67.12	68.25	67.66	61.05	62.99	72.43	68.34
2012-13	69.95	67.66	63.05	66.34	61.43	65.46	72.66	67.00
2013-14	70.67	66.22	62.84	67.17	64.48	66.04	73.84	63.74
2014-15	66.57	64.97	62.35	66.34	67.92	71.64	72.53	67.62

Source: Computed from the Annual reports of the respective Banks

Table 4 shows the Depositors Safety Ratio of Selected Public and Private Sector Banks in India. In SBI, the Depositors Safety Ratio is 64.45 percent in 2010-11 and then it is increased to 66.57 percent in 2014-15.In PNB, this ratio is 67.34 percent in 2010-11 and then it is decreased to 64.97 percent in 2014-15.In BOB, this ratio was 67.64 percent in 2010-11 and then it is decreased to 62.35 percent in 2014-15.In BOI, this ratio was 63.42 percent in 2010-11 and then it is increased to 66.34 percent in 2014-15.It is observed that, the Depositors Safety Ratio has shown an increasing trend in SBI and BOI i.e., money of depositor is safe in SBI and BOI as compared to PNB and BOB. In private sector banks, the Depositors Safety ratio of ICICI Bank is 61.07 percent in 2010-11 and then it is increased to 67.92 percent in 2014-15. In HDFC bank this ratio is 63.37 percent in 2010-11 and then it is increased to 71.64 percent in 2014-15.In AXIS Bank this ratio is 70.09 percent in 2010-11 and then it is increased to 72.53 percent in 2014-15.In FEDERAL Bank this ratio is 68.52 percent in 2010-11 and then it is decreased to 67.62 percent in 2014-15. It is observed that this ratio has shown an increasing trend in ICICI Bank, HDFC, AXIS Bank except FEDERAL Bank. i.e., money of depositor is safe in ICICI Bank, HDFC, AXIS Bank as compared to FEDERAL Bank.

5. Shareholders Risk Ratio

The accumulation of NPA directly affects the net profit because of the provisioning norms. The loss incurred by the banks due to increased NPA weakens the capital position of the bank and thereby affects the capital adequacy ratio. The reduction in the profit or incurring loss affects the interests of the shareholders. It indicates the degree of riskiness associated with the shareholders investments. Higher the ratio means high risk to the shareholders.

Shareholders Risk Ratio = Net NPA/ Total Capital and Reserves

Table 5: Shareholders Risk Ratio of Selected Public and Private Sector Banks in India

Year	Public Sector Banks				Private Sector Banks			
	SBI	PNB	BOB	BOI	ICICI	HDFC	AXIS	FEDERAL
2010-11	18.99	10.17	3.76	12.26	4.37	1.17	2.16	3.73
2011-12	18.84	16.89	5.62	18.59	3.08	1.18	2.07	3.49
2012-13	22.2	23.16	13.11	24.89	3.34	1.29	2.13	6.78
2013-14	26.29	28.76	16.76	24.79	4.50	1.89	2.68	4.63
2014-15	21.48	40.85	20.26	42.99	7.78	1.44	2.95	4.82

Source: Computed from the Annual reports of the respective Banks

Table 5 shows the Shareholders Risk Ratio of Selected Public and Private Sector Banks in India. In SBI, the Shareholders Risk Ratio is 18.99 percent in 2010-11 and then it is increased to 21.48 percent in 2014-15.In PNB, this ratio is increased from 10.17 percent in 2010-11 and then it is increased to 40.85 percent in 2014-15.In BOB, this ratio was 3.76 percent in 2010-11 and then it is increased to 20.26 percent in 2014-15.In BOI, this ratio was 12.26 percent in 2010-11 and then it is increased to 42.99 percent in 2014-15.It is observed that, the Shareholders Risk Ratio has shown an increasing trend in all selected public sector banks. In private sector banks, the Depositors Safety ratio of ICICI Bank is 4.37 percent in 2010-11 and then it is increased to 7.78 percent in 2014-15. In HDFC bank this ratio is 1.17 percent in 2010-11 and then it is increased to 1.44 percent in 2014-15.In AXIS Bank this ratio is 2.16 percent in 2010-11 and then it is increased to 2.95 percent in 2014-15.In FEDERAL Bank this ratio is 3.73 percent in 2010-11 and then it is increased to 4.82 percent in 2014-15. It is observed that this ratio has shown an increasing trend in all selected private sector banks. The shareholders risk ratio is increasing trend in all public and private sector banks, which had failed in making provisions against NPAs. This signifies that the shareholders funds in both public and private sector banks are not safe in position.

Relationship between Gross NPA and Profitability Measure of (ROA)

Return on Assets Ratio

Return on Asset (ROA) represents efficiency in asset utilization and shows how much net Income is generated out of assets. It indicates the ability of bank management to generate profits by utilizing the available assets of the bank. Thus, if the ratio of ROA is high, it indicates that it is better performance in order to generate profit. The bank's profitability measured in terms of ROA might result from high lending rate, fees and commission that lead bank growth in size and profitability. Therefore, more efficient banks are expected to generate higher net income per rupee of assets. Normally a bank's ROA is 2%. It is arrived at by dividing net profit by total assets.

Return on Assets = Net Profit / Total Assets ×100

A basic measure of bank profitability that corrects for the size of the bank is the return on assets. (ROA).The return on assets provides information on how efficiently a bank is being run because it indicates how mush profits are generated by each dollar of assets. In this backdrop, it becomes very important to understand the relationship of Non-Performing Assets and profitability, whether decrease in NPA leads to increase in profitability or not.

Table 6: Relation between GNPA and ROA of Public Sector Banks

Year	SBI		PNB		BOB		BOI	
	GNPA	ROA	GNPA	ROA	GNPA	ROA	GNPA	ROA
2010-11	3.28	0.71	1.79	1.34	1.36	1.33	2.23	0.82
2011-12	4.44	0.88	2.93	1.19	1.53	1.24	2.34	0.72
2012-13	4.75	0.91	4.27	1.00	2.39	0.90	2.99	0.65
2013-14	4.95	0.65	5.25	0.64	2.94	0.75	3.15	0.51
2014-15	4.25	0.68	6.55	0.53	3.71	0.49	5.39	0.27

Source: Computed from the Annual reports of the respective Banks

Table 6 shows the Return on Asset Ratio of Selected Public Sector Banks in India. From the above table it is clearly defined that there is an adverse effect of GNPA on ROA. When GNPA ratio is very high at that time ROA is very low. In 2013-14 GNPA ratio is 4.95 percent and ROA Ratio is 0.65 percent. In 2014-15 GNPA Ratio is decreased to 4.25 percent at that time ROA is increased to 0.68 percent. In PNB, GNPA Ratio is increased from 5.25 percent to 6.55 percent in 2013-14 to 2014-15 at that time ROA is decreased from 0.64 percent to 0.53 percent. In BOB, GNPA Ratio is increased from 2.94 percent to 3.71 percent in 2013-14 to 2014-15 at that time ROA is decreased from 0.75 percent to 0.49 percent. In BOI, GNPA Ratio is increased from 3.15 percent to 5.39 percent in 2013-14 to 2014-15 at that time ROA is decreased from 0.51 percent to 0.27 percent.

Table 7: Relation between GNPA and ROA of Private Sector Banks

Year	ICICI		HDFC		AXIS		FEDERAL	
	GNPA	ROA	GNPA	ROA	GNPA	ROA	GNPA	ROA
2010-11	4.47	1.35	1.05	1.58	1.01	1.68	3.49	1.34
2011-12	3.62	1.50	1.02	1.77	0.94	1.68	3.35	1.41
2012-13	3.22	1.70	0.97	1.90	1.06	1.70	3.44	1.35
2013-14	3.03	1.78	1.00	2.00	1.22	1.78	2.46	1.20
2014-15	3.78	1.86	0.90	2.02	1.34	1.83	2.04	1.32

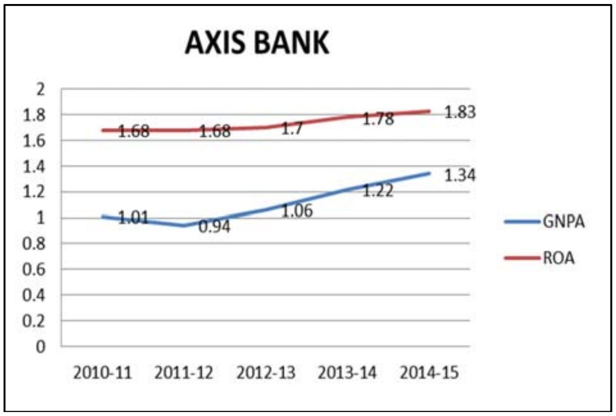
Source: Computed from the Annual reports of the respective Banks

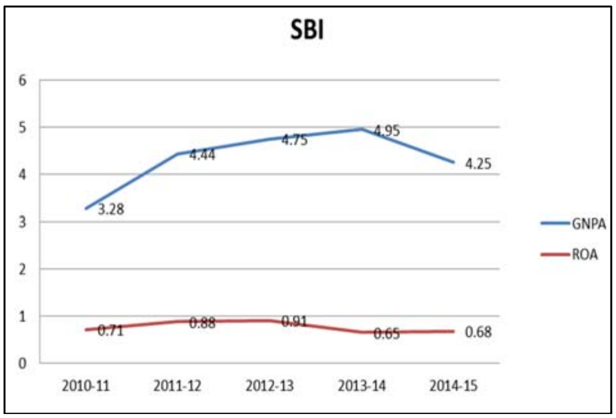
Table 7 shows the Return on Asset Ratio of Selected Private Sector Banks in India. From the above table it is clearly defined that there is an adverse effect of GNPA on ROA. when GNPA ratio is very high at that time ROA is very low. In 2013-14 GNPA ratio is 3.03 percent and ROA Ratio is 1.78 percent. In 2014-15 GNPA Ratio is increased to 3.78 percent at that time ROA is increased to 1.86 percent. In HDFC, GNPA Ratio is decreased from 1.00 percent to 0.90 percent in 2013-14 to 2014-15 at that time ROA is increased from 2.00 percent to 2.02 percent. In AXIS Bank, GNPA Ratio is increased from 1.22 percent to 1.34 percent in 2013-14 to 2014-15 at that time ROA is increased from 1.78 percent to 1.83 percent. In BOI, GNPA Ratio is decreased from 2.46 percent to 2.04 percent in 2013-14 to 2014-15 at that time ROA is increased from 1.20 percent to 1.32 percent.

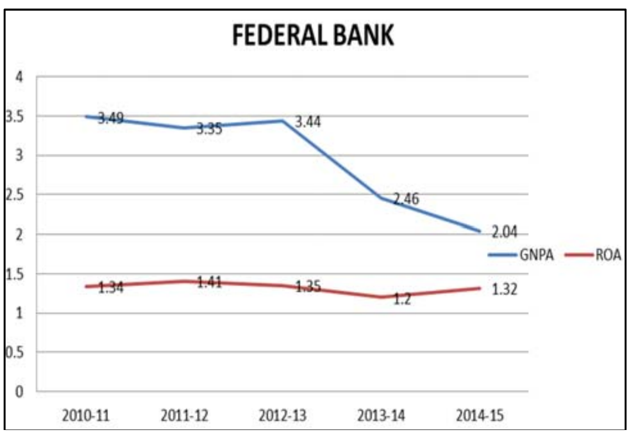
Table 8: Correlation of GNPA with ROA

Variables	Banks		Correlation
GNPA with ROA	Public Sector Banks	SBI	0.21
		PNB	- 0.98
		BOB	- 0.99
		BOI	- 0.96
	Private Sector Banks	ICICI	- 0.68
		HDFC	- 0.79
		AXIS	0.98
		FEDERAL	0.59

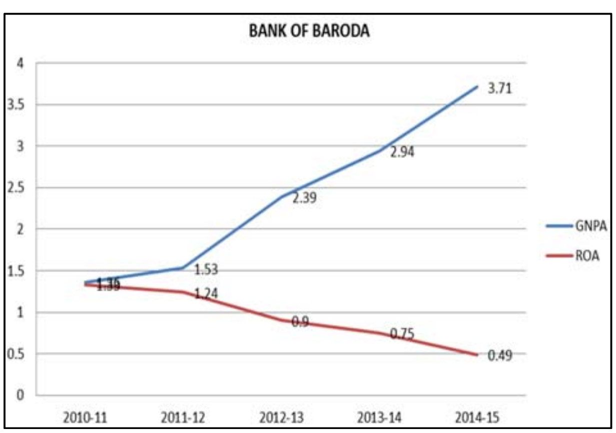
Positive Correlation between GNPA and ROA

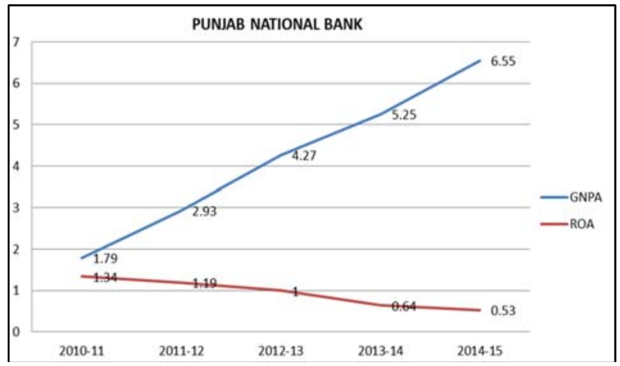


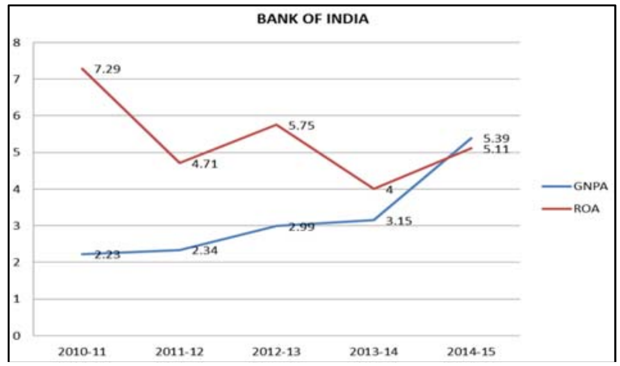


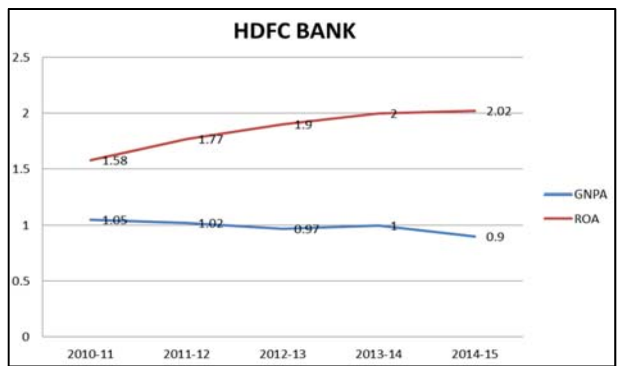


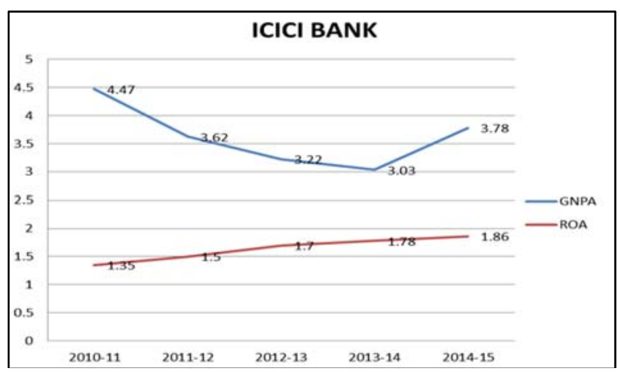
Negative Correlation between GNPA and ROA











There is a high degree of negative correlation between GNPA ratio with ROA of PNB (-0.98), BOB (-0.99), BOI (-0.96), ICICI (-0.68) HDFC (-0.79). An inverse relationship defines that if Non-Performing Assets are controlled, it increases the profitability. The above graphs indicates that by increasing the GNPA ratios, there is an decrease in return on assets which is a measure of profitability and the above table shows that there is a positive correlation between GNPA ratio with ROA of SBI (0.21), AXIS (0.98) and FEDERAL Bank (0.59).An increase in GNPA will be followed by increase in ROA generated by the banks, i.e., the GNPA has been consistently increase, the ROA has risen at an alarmingly consistent rate over the period under study. NPA is directly related to total advances given by bank and banks main source of income is interest earned by bank. There are two types of customers in bank such as good and Default customer. A good customer leads to increase in profit by paying interest and principle amount timely. While the Default customer leads to increase in NPA by do not paying interest and principle amount timely. This is because of wrong choice of customer. That is the only reason of positive relation between GNPA and determinant of profitability. The increase in NPAs shows that neither was assets created nor was the promoter's margin found adequate during recovery.

Conclusion

NPAs reflect the overall performance of the banks. The Indian banking sector faced a serious problem of NPAs. The extent of NPAs is comparatively higher in public sectors banks than private sector banks. Because the private sector banks have a secured loan policy as compared to public sector banks. Public Sector Banks are subjected to provide more loans to priority sector, which results in higher non-performing assets. These banks are more exposed to political interference; they are not allowed to act as a professional manner, which results in high level of NPAs. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken by government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers. The money locked up in NPAs has a direct impact on profitability of the bank. As Indian banks are highly dependent on income from interest on funds lent. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. During the study it has observed that every bank shows low recovery and high provision on NPA and suffering losses, which ultimately weaken the banks, occurrence of new NPA and low recovery resulted in potential high position of NPAs of Banks makes and adverse effect on the banking performance.

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