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'AN EMPIRICAL STUDY OF NON-PERFORMING ASSETS AND ITS IMPACT ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTION IN INDIA'

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ABSTRACT:
The banks provide loans to the customers, these loans are financed by customer deposits, and commercial banks face the risk of default by the borrower in the payment of principal or interest. When the borrower cannot repay the payment of interest and / or the repayment of principal is treated as a Non- performing asset. The Non performing assets have negative impact on the financial performance of the banks. The main objective of this paper is to study the overall financial performance of selected banks and the impact of non-performing assets. The information gathered for the study incorporates secondary data. The different sources used to gather secondary data incorporate Research articles, papers, journals and different sites. The secondary data gathered is analyzed utilizing different statistical tools and techniques.

KEYWORDS: *Loans, Non-performing asset, Financial performance*

I. INTRODUCTION:

Bank accepts deposit from the public and pays them interest over it. It also provides credit to the public know as loans and receives interest over it. These loans are financed by customer deposits, and commercial banks face the risk of default by the borrower in the payment of principal or interest. When the borrower is unable to repay the payment of interest and / or the repayment of principal is treated as a Non- performing asset. The financial performance of the banks has been at a setback due to the increasing figured of Non-performing assets. The amount of non-performing loans is considered as an indicator for assessing banks credit risk, asset quality and efficiency in allocation of resources to productive sectors.

II. RELATED WORK:

Sangeeta Arora and Shubapreet Kaur (2006) has reviewed the banking sector performance in India. A comparative assessment of the banks was made on the basis of seven key financial performance indicators for the period 1994 to March 2005. It was found that although public sector banks are significantly improved and their performance is comparable to those of the other banks in other sectors. I am late in the push area, such as business per employee, profitability and asset quality, etc. Recommendations and suggestions have been made to improve the performance of public sector banks in India.

In (2008) Sangeeta Arora and Shubapreet Kaur examined the financial performance of diversified banks over the period 2000-2005, taking into account various internal and external factors, such as economies of scale and scope, competition, risk reduction, etc., which oblige banks to diversify and find a continued decline in interest margins after 2001, indicates that a low level of net interest income pushes banks to generate income from alternative sources of income other than interest income. Banks will have to focus more on providing better, faster and more efficient customer service to allow banks to charge higher rates for better and faster service.

III. OBJECTIVES:

a. To analyze NPA in relation to Loan Advances Ratio and its impact on overall financial performance of selected banks
b. To analyze the impact of NPA on the capital adequacy ratio of banks

IV. ANALYSIS:

Following Banks were selected for the purpose of research:

A. Public Sector Banks
    a. Allahabad Bank
    b. Bank of Baroda
B. Private Sector Banks
    a. Axis Bank
    b. DCB Bank

V. EXPERIMENTAL RESULTS:

Allahabad Bank										
	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Capital Adequacy Ratio	8.69	11.45	11.02	10.45	9.96	11.03	12.83	12.96	13.62	13.11
Return on Assets	-1.84	-0.13	-0.33	0.29	0.57	0.64	1.02	1.11	1.16	0.9
Return on Equity	-60.61	-2.21	-5.57	5.08	10.12	10.84	19.64	18.65	19.14	13.88
Net Profit Margin	-28.57	-1.77	-3.93	3.14	6.25	6.94	6.37	12.99	14.67	10.73
Operating expenses Ratio	20.17	19.25	17.11	16.65	16.14	19.09	17.57	21.7	19.74	19
NPA to Loan Advances Ratio	8.92	6.76	3.99	4.15	3.19	0.98	0.79	0.66	0.72	0.8
Credit to deposit ratio	74.68	75.94	77.49	72.31	72.45	69.64	70.99	67.52	69.2	69.43

Bank of Baroda										
	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Capital Adequacy Ratio	12.13	13.17	13.17	12.6	12.28	13.3	14.67	14.52	14.36	14.05
Return on Assets	-0.33	0.19	-0.8	0.47	0.68	0.82	1.12	1.18	1.1	0.98
Return on Equity	-5.6	3.43	-13.42	8.53	12.61	14.59	19.11	21.42	22.19	19.48
Net Profit Margin	-5.57	3.27	-12.24	7.91	11.66	11.54	15.12	17.17	15.68	14.76
Operating expenses Ratio	18.51	17.94	17.17	15.48	15.65	16.89	17.38	21.15	22.82	35.87
NPA to Loan Advances Ratio	4.72	5.06	1.89	1.52	1.28	0.54	0.35	0.34	0.31	0.47
Credit to deposit ratio	67.95	65.24	68.13	69.54	69.54	82.03	86.86	86.77	84.47	81.94

AXIS Bank										
	2017-18	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**2011-12**	**2010-11**	**2009-10**	**2008-09**
Capital Adequacy Ratio	16.57	14.95	15.29	15.09	16.07	17	13.66	12.65	15.8	13.69
Return on Assets	0.03	0.65	1.72	1.83	1.78	1.7	1.68	1.68	1.67	1.44
Return on Equity	0.43	6.76	16.81	17.75	17.43	18.53	20.29	19.34	19.15	19.12
Net Profit Margin	0.6	8.26	20.06	20.73	20.29	19.05	19.29	22.36	21.6	16.75
Operating expenses Ratio	23.65	20.79	19.18	20.07	19.81	25.44	27.31	31.54	31.88	26.38
NPA to Loan Advances Ratio	3.4	2.27	0.74	0.46	0.44	0.36	0.27	0.29	0.4	0.4
Credit to deposit ratio	93.63	90.03	94.64	87.17	81.89	77.97	77.13	75.25	73.84	69.48

DCB Bank Limited										
	2017-18	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**2011-12**	**2010-11**	**2009-10**	**2008-09**
Capital Adequacy Ratio	16.47	13.76	14.11	14.95	13.71	13.61	15.41	13.25	14.85	13.3
Return on Assets	0.81	0.93	1.14	1.37	1.31	1.06	0.68	0.3	-1.3	-1.25
Return on Equity	9.59	9.99	11.51	13.94	14.03	10.95	7.43	3.51	-13.08	-14.27
Net Profit Margin	10.16	9.61	11.45	13.44	13.41	11.14	7.68	4	-17.09	-13.65
Operating expenses Ratio	26.71	25.34	24.01	23.49	23.77	30.05	34.07	40.13	43.75	37.5
NPA to Loan Advances Ratio	1	0.79	0.75	1.01	0.91	0.75	0.57	0.96	3.11	3.88
Credit to deposit ratio	83.5	82	86.57	83	78.84	78.74	83.41	76.32	72.27	70.46

VI. CONCLUSION:

The ratios calculated above very visibly show that for all the banks both private and public sector banks exhibit a negative correlation between their gross Non Performing Assets and overall profitability. Capital is seen as a cushion to protect depositors and promote stability and competition from the financial system worldwide. The adequacy of capital reflects the general financial conditions of the banks and the administration's ability to comply with the Need for additional capital. It also indicates if the bank has sufficient capital for Absorb unexpected leaks. It can be concluded from the above analysis that the NPA's affect the capital adequacy ratio of Banks.

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