

A COMPARATIVE AND ANALYTICAL STUDY ON NON-PERFORMING ASSETS OF BANK OF BARODA AND AXIS BANK

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ABSTRACT

Banks have the major role of accepting long term & short term deposit and lending money (Advances) to the borrowers. Bank advance means the advances of a specified amount of money to a business entity or an individual by a commercial bank. Advances plays a very important role in the banking sector. On one hand, it's generated interest income, which is the major sources of income for banks in the context of profit. On the other hand, if it's got converted in to non-performing assets, then not only profit & loss but balance sheet also gets affected. The present study is more relevant in the current environment, as the Indian banking sector is facing a big problem of higher Nonperforming assets. The level of the NPA is comparatively higher in public sector banks than in private sector banks. To improve the productivity and profitability of the banking sector, the NPA need to be reduced and controlled with a particular focus. Additional preventive measures should be taken to control it. This study focus on GROSS-NPA, NET-NPA, NET-PROFIT, & TOTAL ADVANCE of a public sector bank (BANK OF BARODA) and a private sector bank (AXIS BANK). In this study, NET NPAs and NET PROFIT of the two banks are taken to measure correlation, and all GROSS NPA, NET NPAs and TOTAL ADVANCE are taken for tabular representation.

KEYWORDS: *Nonperforming Assets, Gross NPA, Net NPA, Net Profit*

INTRODUCTION

Banking is one of the major and important parts of Service Sector in India. Today, cutthroat competition is prevailing in each and every sector of the economy and banking is not an exception in it. Bank advance means the advances of a specific amount of money to a business entity or an individual by a bank. This advances or loan generates interest income for the banks, which is the major source of income for banks in the context of profit. But if it's got converted into non-performing assets, then not only profit & loss but balance sheet also gets affected. It affects the goodwill of the bank negatively; the growth of equity value & cash flow also gets affected unfavorably or negatively. When, a borrower does not make repayment of advance or loan to the bank, then it is considered as a bad loans. As per RBI guideline, if any amount of instalment or interest payment on a loan or advances remained outstanding for a period of more than 90 days is known or called as a non-performing asset. RBI has decided a clear guide line for identification of non-performing assets. Non-performing assets affects badly to banks, because banks are dependent on interest income as (it is the major contributor in the profit) it decides its profit for the year. Non-performing assets affects the balance sheet also in the form of non-productive assets also. Today, Indian banking sector is facing a big problem of

non-performing assets that is why this study holds a big importance in that context.

There are various reasons, like weak credit appraisal system, improper & defective lending process or system, lack of effective follow-up system by banks, overall recession in that particular industry, general economic condition of the country etc. which is responsible for non-performing assets.

LITERATURE REVIEW

The Working Committee (1999) on NPAs suggested write-off, compromise and one time settlement for recovery of NPAs. The committee recommended compromise model for the recovery of NPAs as the most effective step or tool. However, both write-off and compromise are the steps to be taken with great caution and due monitoring process.

RBI study (1999) suggested that banks were required to closely monitor the operations of the borrower business. In respect of accounts where the classification of asset deteriorates, banks were required to take immediate steps to recover the dues and bank's staff accountability was required to be examined or assessed. An emphasis was given to supervision or monitoring of large NPA accounts, and on reduction of NPAs, through recovery, and compromise settlements.

Rajeshwari Krishnan (2002) stated that the problem of NPAs in the banks of the country becomes more and more unmanageable and created a big threat for the banking and financial sector. She observed that securitization can be used for the liquidating the illiquid and long term debt of the bank by issuing marketable securities against them. The researcher concluded that the SARFAESI act is surely a big move and a step forward not only in the field of NPA management, but also a process promoting the securitizing market in India.

Sardar Gujaral N.S. (2003) studied and explained the impact on profits and capital base of the banks. High level of NPAs increases the cost of credit and makes banks more averse to risks and decrease the credit. Due to the crippling effect of NPAs, an asset quality criterion becomes a very important tool or parameter in the measurement of performance of banks. Author also concluded that the priority sector and non-priority sector shared almost equally in total NPAs.

Ashok Khurana and Mandeep Singh (2010) in their study reveal that issue of heavy NPAs is a challenging for public sector banks. They stated that the asset wise classification of PSBs was in the right direction and there was a considerable difference in the recovery of NPAs in the different sector. The study concludes with the observation that PSBs should not be loaded with the twin aim of profitability and social weal fair.

Neha Rani (2014) in her research paper found that share of public sector banks in priority sector NPA was greater in 2008 but after that it is reducing. However, she observed that the amount of NPA of both banks is increasing, but there percentage share in total NPA is decreasing continuously post 2010.

OBJECTIVES OF THE STUDY

Following four objects are considered in the present study

- To know the relationship between NET PROFIT and NET NPA.
- To analyze NPA (Non Performing Assets) of BANK OF BARODA and AXIS BANK
- To understand the performance of BANK OF BARODA and AXIS BANK during the last five year.

- To make suitable suggestions for better NPA management

RESEARCH METHODOLOGY:

Area of study: The present study is concerned with the Indian banking system in general & NPAs of two banks, namely BANK OF BARODA & AXIS BANK in particular. The research is analytical in nature.

Data Base for the Study: For the present study, data are taken for five years from 2013 to 2017. For analyzing the NPAs of selected banks, five years data are analyzed. For this study, one public sector bank, namely Bank of Baroda & one private sector bank namely Axis Bank has been selected. For the study of NPAs of these two banks five years data have been analyzed.

Data Collection: The study is based on secondary data for a period of five years from **2013 to 2017**. The required data have been collected from the annual reports of selected banks, RBI annual reports, and various issues of Banking Statistics, published by the Reserve Bank of India on RBI website and from other knowledge portal like www.acekp.in

Techniques for Analysis: The collected data were analyzed and interpreted with the help of tables & Correlation technique was used for comparisons. Both correlation technique and tables helped this analytical study to arrive at convincing conclusions.

Scope of the study: Study helps the researcher to improve the knowledge about the banking sector in general & NPAs in particular. The present study also helps the banks to understand or know their position on NPAs for last five years (i. e. 2013 to 2017).

Significance of the Study: Lending activities of banks are badly affected by NPA problems. Due to no repayment of loan instalment and the interest amount, bank's profitability has been affected adversely. Not only that, banks with higher NPAs have to carry more owned fund by way of capital (which affects their capital adequacy ratio) to create reserve and cope up with the situation of bad loans or NPAs.

The high level of NPA of banks creates a negative goodwill. It creates a lack of confidence in investor community which adversely affects the economy also. Profitability of banks can be improved only by having a big focus on reducing the level of NPAs. Detailed and Timely assessment is desirable to do that.

In this background, in the present study an attempt has been made to make an analytical study of a public sector bank and a private sector bank regarding their NPAs. For this purpose, Bank of Baroda and Axis Bank taken into consideration.

Variables of the Study

The following variables are analyzed in the present study:

- Gross NPAs
- Net NPAs
- Net Profit

LIMITATION OF THE STUDY

- The present study considers only one public sector bank and one private sector bank; no other banks are taking into consideration.
- As this analysis has been restricted to two banks only, namely, Bank of Baroda and Axis bank, the inferences of study may not hold 100% when looked towards other banks.
- The figures/tools used, are adjusted to the nearest decimal points. So, it lacks accuracy.

DATA ANALYSIS, TABULAR PRESENTATION & INTERPRETATION

Table 1: Five Year Comparison of Gross NPAs of Bank of Baroda & Axis Bank (Rs. in Cr.) (As on 31 March)

Year	Gross NPAs of Bank of Baroda	Gross NPAs of Axis Bank
2013	7982.58	2393.42
2014	11875.90	3146.41
2015	16261.44	4110.19
2016	40521.04	6087.51
2017	42718.70	21280.48

Analysis & Interpretation

From above table 1 Five Year Comparison of Gross NPAs of Bank of Baroda & Axis Bank, it is very clearly visible that Gross NPAs of both banks increases every year on an increasing scale. Especially the big jump came in last two years.

Table 2: Five Year Comparison of Net NPAs of Bank of Baroda & Axis Bank (Rs. in Cr.) (As on 31 March)

Year	Net NPAs of Bank of Baroda	Net NPAs of Axis Bank
2013	4192.03	704.13
2014	6034.76	1024.62
2015	8069.49	1316.71
2016	19406.46	2522.14
2017	18080.18	8626.55

Analysis & Interpretation

From above table 2, Five Year Comparison of Net NPAs of Bank of Baroda & Axis Bank, it is very clearly visible that Net NPAs of bank of Baroda, baring the last year (i. e. 2017) was increased every year on an increasing scale. While for axis Bank it was increased every year on an increasing scale.

Table 3: Five Year Comparison of Net Profit of Bank of Baroda & Axis Bank (Rs. in Cr.) (As on 31 March)

Year	Net Profit of Bank of Baroda	Net Profit of Axis Bank
2013	4480.72	5179.43
2014	4541.08	6217.66
2015	3398.43	7357.82
2016	-5395.53	8223.66
2017	1383.13	3679.27

Analysis & Interpretation

From above table 3 five year comparison of Net Profit of Bank of Baroda & Axis Bank, it shows that the net profit of Bank of Baroda fluctuates every year with a big margin and in 2016 it recorded a big loss also. While for Axis banks barring the last year 2017, it shows an increasing trend every year.

Table 4: Five Year Comparison of Total Advances of Bank of Baroda & Axis Bank (Rs. in lakhs) (as on 31 March)

Year	Total Advances of Bank of Baroda	Total Advances of Axis Bank
2013	32,818,576.49	19,696,595.74
2014	39,700,581.08	23,006,675.84
2015	42,806,513.89	28,108,302.97
2016	38,377,018.03	33,877,372.29
2017	38,325,922.31	37,306,934.95

Analysis & Interpretation

From above table 4 five year comparison of Total Advances of Bank of Baroda & Axis Bank, it shows that total advances of Bank of Baroda increased in first three years continuously & then afterwards remained more or less same in last two years. While for Axis banks it is shows an increasing trend every year. Its advances increased every year.

CORRELATION BETWEEN NET NPAs AND NET PROFIT OF BANK OF BARODA

CORRELATION CO-EFFICIENT= $r =$

X=NET NPAs (IN CRORES)

Y=NET PROFIT (IN CRORES)

Year (as on 31 March)	Net NPAs (X) (in Cr.)	Net Profit (Y) (in Cr.)
2013	4192.03	4480.72
2014	6034.76	4541.08
2015	8069.49	3398.43
2016	19406.46	-5395.53
2017	18080.18	1383.13

Year	x	y	xy	x ²	y ²
2013	4192.03	4480.72	18783312	17573115	20076852
2014	6034.76	4541.08	27404328	36418328	20621408
2015	8069.49	3398.43	27423597	65116669	11549326
2016	19406.46	-5395.53	-104708137	376610690	-29111744
2017	18080.18	1383.13	25007239	326892909	1913049
Total	55782.92	8407.83	-6089661	822611711	25048891

Correlation co-efficient = $r = - 0.84895$

Interpretation

From the above calculation, it shows that NET NPAs and NET PROFIT OF BANK OF BARODA are negatively correlated. Impact of increases in NET NPAs affects negatively to NET PROFIT.

CORRELATION BETWEEN NET NPAs AND NET PROFIT OF AXIS BANK

CORRELATION CO-EFFICIENT= $r =$

X=NET NPAs (IN CRORES)

Y=NET PROFIT (IN CRORES)

Year(as on 31 March)	Net NPAs (X) (in Cr.)	Net Profit (Y) (in Cr.)
2013	704.13	5179.43
2014	1024.62	6217.66
2015	1316.71	7357.82
2016	2522.14	8223.66
2017	8626.55	3679.27

Year	x	y	xy	x ²	y ²
2013	704.13	5179.43	3646992	495799	26826495
2014	1024.62	6217.66	6370739	1049846	38659296
2015	1316.71	7357.82	9688115	1733725	54137515
2016	2522.14	8223.66	20741222	6361190	67628584
2017	8626.55	3679.27	31739407	74417365	13537028
Total	14194.15	30657.84	72186475	84057925	200788878

Correlation co-efficient = $r = 0.915415$

Interpretation: from the above calculation, it shows that NET NPAs and NET PROFIT of AXIS BANK are positively correlated. It means, Axis bank might be having higher other income also, bank was able to generate other income in a significant way in its profit & Loss Account that is why in spite of increasing in its NPAs, bank was able to increase its profit for most of the year (barring the last year). So, Bank management was able to create another source of income in a significant way.

RESULTS, FINDINGS & DISCUSSIONS

- Gross NPAs of Bank of Baroda increases by 49 percent in 2014, 36 percent in 2015, 149 percent in 2016 & 5 percent in 2017 compared to last year.
- Net NPAs of Bank of Baroda increases by 44 percent in 2014, 34 percent in 2015, 140 percent in 2016 & decreases by 7 percent in 2017 compared to last year.
- It was found that the Net profit of Bank of Baroda increases by app. 1 percent in 2014, decreases by 25 percent in 2015, decreases by 259 percent in 2016 and increases by 124 percent in 2017 compared to last year.
- Advances of Bank of Baroda show a fluctuation. In the first three years, it was increased & then decreases in last two years.
- Gross NPAs of Axis bank increases by 31 percent in 2014 & 2015, 48 percent in 2016 & 250 percent in 2017 compared to last year.
- Net NPAs of Axis bank were increased by 45 percent in 2014, 29 percent in 2015, 92 percent in 2016 & by 242 percent in 2017 compared to last year.
- Net profit of Axis bank was increased by 20 percent in 2014, by 18 percent in 2015, by 12 percent in 2016 & then decreases by 55 percent in 2017 compared to last year.
- Advances of Axis bank increase on an increasing scale every year.
- It was visible that Gross NPAs & Net NPAs of both the banks increases every year on an increasing trend.

Though, it was (NET NPAs) decreases a little bit for Bank of Baroda in 2017.

- Net profit of Bank of Baroda shows a fluctuating trend and in 2016, it recorded a big loss also. While in case of Axis Bank it shows an increasing trend barring the last year.
- In the correlation of Net NPAs & Net Profit of both the banks, it looks that Bank of Baroda have more NPAs compared Axis bank.

SUGGESTIONS

- Both banks should take corrective actions to control the NPA.
- Both banks should be more foxed on NPAs.
- A good & effective loan/advance approval procedure must be followed by banks.
- A systematic study of the borrower's profile should be put in place.
- Regular Meetings should be conducted with the NPA borrowers to know about the reasons for their problems.
- For containment of NPA, "A stitch in time saves nine", holds true in the credit portfolio monitoring, controlling and procuring fresh growth of NPAs as well. So the banks focus should be not only on recovery, but simultaneously on containment of NPAs also.
- An effective system of controlling, identification, reporting & recovery of NPAs must be strictly followed by banks.

CONCLUSIONS

The study is to have a comparative analytical study on NPAs of Bank of Baroda & Axis Bank. On the basis of the study conducted, it is found that during the year 2013-2017, AXIS bank has higher debt compared to Bank of Baroda. While analyzing the relationship between NET NPAs and NET PROFIT of both banks it is proved that correlation between NET NPAs and NET PROFIT of Bank of Baroda is negative, which means having lesser debts and impact of increases in NET NPAs affects negatively to NET PROFIT. But in the case of Axis the Bank the correlation between NET NPAs and NET PROFIT is positive which means this bank having higher debt. It also means that Axis Bank might be having higher other income also. Because, in spite of increasing in NPAs, the bank was able to increase its profit for most of the year (barring the last year). So, we can conclude that while comparing the NPAs of both banks, Bank of Baroda is having a negative correlation, while, Axis bank is having a positive correlation. Timely & prompt Corrective measures & necessary action should be taken to control it, as the old proverb says, "Prevention Is Better than Cure".

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