

Impact of Non-Performing Asset on Profitability and Efficiency of Banking Sector in India

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ABSTRACT

The banking system plays a key role in the mobilisation and deployment of financial resources into the economy. The sound fundamentals of banking are required to be met for its growth. The standard assets are turning into non-performing assets at an alarming rate, with a steep rise in sub-standard, doubtful and loss assets categories. The high rising levels of non-performing assets have brought to light the need to manage and keep them well under control. The major challenge lies in the assessment of credit risk for disbursement of loans and advances to corporates and individuals. The study makes a modest attempt to analyse the adverse effect of non-performing assets on the performance and profitability of the banking sector. Exploratory and empirical research design method is followed. It seeks to analyse the compounded growth of asset classification as well as the impact of Non-Performing Assets on the profitability proxies, namely, return on assets (ROA) and return on equity (ROE). It identified a high-level rising trend over a ten-year period from 2008-2017 across the public sector, private sector, foreign and all scheduled commercial banks. The t-test is executed to test the hypothesis. It is observed that there exists an imperative inverse relationship between the non-performing asset and the return on asset and return on equity across all banking sectors. It is found that a proper and continuous system of monitoring needs to be evolved to evaluate the creditworthiness of the borrower. It is also noted that post-sanctioning follows up and ensured end use are the measures to name a few, to curb the non-performing assets.

KEYWORDS: Gross non-performing asset, Net non-performing asset, Growth rate, ROA, ROE.

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