Chapter 20
Impact of NPAs on Bank Profitability: An Empirical Study

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ABSTRACT

NPA is a “termite” for the banking sector. It affects liquidity and profitability of the bank to a great extent; in addition, it also poses a threat to the quality of asset and survival of banks. The post-reform era has changed the whole structure of the banking sector of India. Now, the economy is not confined to the domestic boundary of the country. The core intention of economic reforms in India was to attract foreign investments and create a sound banking system. This chapter provides an empirical approach to the analysis of profitability indicators with a focal point on Non-Performing Assets (NPAs) of commercial banks in the Indian context. The chapter discusses NPA, factors contributing to NPA, magnitude, and consequences. By using an analytical perspective, the chapter observes that NPAs affected significantly the performance of the banks in the present scenario. On the other hand, factors like better credit culture, managing the risk, and business conditions led to lowering of NPAs. The empirical findings using observation method and statistical tools like correlation, regression, and data representation techniques identify that there is a negative relationship between profitability measure and NPAs.

INTRODUCTION

NPA (Non Performing Assets) broadly defined as non-repayment of interest and installment of principal amount (Das & Ghosh, 2006). Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of the Non-performing assets is an important one. NPA after a certain level is indeed a serious concern for the banking system because credit is essential for economic growth and NPA affects the smooth flow of credit. Banks increases their resources not only from the public deposits but also by multiplying the funds received from the
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