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Rising Npa and Its Effect on Stock Prices

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***ABSTRACT**: Stock market is one the most reliable indicator for our economy. It shows how efficiently and effectively the economy is running. Seeing the trends in theBanking sector along with the rise in NPA indicates that NPA has strong resilience with stock prices. A high level of NPA may crash down banking sector points and may affect other sectors linked to the same. In recent times it has been noticed that NPA has risen many folded times leaving economy in shackle. This has happened due to negligence, to survive in competitive market and improper management because of which loans were granted with ignorance. This study highlights the significant effect on stock price due to rise in Non-Performing Assets. Stock market takes consideration of various factors, however still NPA has great influence on it. Various public sector and private sector banks are facing the same trends and behavior in past 5 years of the study.*

***Keywords:** Stock Market, NPA, Banking Sector, Public Sector, Private Sector*

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I. INTRODUCTION

Indian banking industry has developed in many levels in past two decades. The private and public sector banks in India play a major role in the economy as it is affected by various factors in the industry and outside the industry. One of the major factors affecting banks, industries etc are the fluctuating stock market. Stock prices drive the Indian market or any other market, as it is the driving force of all the companies and industries overseas as well.Our study focuses on the effect of stock prices on the rising NPA.

Non-performing assets(NPA) is defined as a credit facility in respect of which the interest and installment of Bond finance principal has remained 'past due' for a specified period of time. NPA is used by financial institutions that refer to loans that are in danger of default the so called NPL. Once the borrower has failed to make interest or principal payments for more than 90 days the loan is considered to be a non-performing asset.

- A loan can also be categorized as nonperforming if a company or an organization makes all interest payments but fails to repay the principal at maturity. Non-performing assets are difficult for financial institutions since they depend on interest or principal payments for income. Troublesome pressure from the economy can lead to a high increase in NPLs and often results in huge write-downs.
- A non-performing asset (NPA) is a debt obligation where the borrower has not made any previously agreed upon interest and principal repayments to the lender for an extended period of time. The non-performing asset is, therefore, not yielding any income to the lender in the form of interest payments.
- The increase in non-performing assets in Indian banks follows the recognition standards being followed by the banks after the RBI highlighted it in the Asset Quality Review (AQR). Of course the main reason is inadequate progress in the financial health of the companies and organizations. in India has acquired a high number of Non-Performing Assets (NPA's) over the last two decades.
- NPA affected the profitability, liquidity and competitive functioning of Public and Private Sector Banks and finally the psychology of the bankers in regarding to their disposition towards credit expansion and credit delivery.
- NPA is one of the inevitable burdens on the banking industry. Banks should have a regular check on their standard asset in order to prevent any account becoming an NPA. Today the success of the bank is only dependent upon the proper management of NPAs and keeping them within the tolerance level. NPAs in the Indian banks have become a major concern for the Indian economy.
- NPA has a direct impact on the liquidity,profitability and solvency position of the bank. Higher NPA indicates lower performance of the bank and lower NPA indicate better performance and management of funds.
- To improve the performance and profitability of banks the NPA need to be reduced and controlled. NPAs are decreasing the capital of the banks and weakening their financial strength. It is as much a political and a

financial issue. Non-Performing Assets (NPA) is a sign of a bank's health. The recording of the loan as a NPA is mainly to satisfy the regulations set by the Reserve Bank of India (RBI).

- Credit growth leads to higher NPAs which shows a cyclical nature. When the mood is optimistic, it leads to higher credit growth which can be channeled into mal-investments.

Net NPA ratio :It is a measuring tool used to measure the overall quantity of the bank's loan book
Gross NPA :It is the amount outstanding in the borrowings account in the books of the banks other than the interest.

II. REVIEW OF LITERATURE

1. **A Comparative Study of Non-Performing Assets in India in the Global Context - Similarities and Dissimilarities, Remedial Measures**(Reddy, 2002)

This paper gives value to the issues arising to banks and the economy for solving the NPA problems. It compares the problems of India in a global context with other countries like China, Thailand, Korea and Japan. The NPA of India has fallen down from 14.46% in 1993-94 to 6.74% in 2000-01.The RBI regulations require that banks should build provisions up to at least a level of 50% of their gross NPAs. The experiences of other Asian countries in handling of NPAs have been elaborated here. It also shows the effect of reforms on the level of NPAs and suggests ways to handle the problem.

2. **Developing the Asian Markets for Non-Performing Assets- Developments in India.**(Batra)

The profitability, liquidity and competitive functioning of Public and Private Sector Banks have been affected because of NPA. The RBI and Government of India have engaged themselves independent of each other to deal with the matter on various counts.The banking industry has under-estimated it's NPAs by whopping Rs 3,862.10 crore as on March 1997. The industry is also under-estimated to the extent of Rs 1,412.29 crore. Nineteen nationalized banks are stated to have underestimated their NPAs by Rs 3,029.29 crore.

3. **Macroeconomic Factors Affecting the NPAs in the Indian Banking System: An Empirical Assessment.** (Satpathy, Behera, & Digal, 2015)

It focuses on the current problems that the banking sector is facing due to NPAs. It shows that both the macroeconomic and microeconomic factors responsible for the rising NPA levels in the Indian banking system. They found that economic and market conditions have a direct impact on bank's business and the asset quality. The macroeconomic factors which explain the trends in the NPA levels are the trade balance with other countries, high government deficit and the level of inflation while fiscal deficit, growth in GDP of India and an increase in balance of trade help in reducing the NPA levels in the banking sector.

4. **A Study on Analyzing the Trend of NPA Level in PrivateSector Banks and Public Sector Banks.** (Joseph, 2014)

It shows trend in NPA level, the internal and external factors that contributes to NPA and to suggest the various measures for proper management of NPA in banks. It evaluates the NPA level in public sector and private sector banks. Compared to private sector banks the NPA level is higher in public sector banks. Public sector bank must take preventive measures in an efficient manner so that they can avoid any account becoming NPA.

5. **Efficiency of NPA Management in Indian SCBs – A Bank-Group Wise Exploratory Study.** (Pillai & Siraj, 2013)

Non-Performing Asset is the threat for banking stability and growth. This paper explains the growth of selected NPAvariables and compares it with banking performance indicators. It shows improved efficiency of public sector banks in managing NPA.This study does not concentrate on the effect of financial crisis on movement of NPA indicators.It shows that the stability of banking sector in India depends mainly on the performance of public sector banks, which occupy around 75% of total deposits and advances of all SCBs in India

III. RESEARCH DESIGN

Statement of Problem –

The stock market has its own fluctuations every single day. The stock prices of banks in the industry of India also have huge fluctuations which may in turn affect the other banking factors. The rising Net Performing Assets on of the biggest factor behind is the fluctuations in stock prices. This research is completely based on secondary data to find out the relationship between the stock prices and the rising NPA.

Scope –

For this study, 4 Banks from private and public sector of India have been selected. Data used for the study is from financial 2013-14 to 2017-18. Following are the banks selected for the study:

- State Bank of India
- HDFC
- Punjab national bank
- ICICI

The target area would be the NPA component and its respective ratios of the banks in the corresponding financial years from 2013 to 2018.

Objectives –

- To find out the effect to fluctuations in stock prices on the rising NPA
- To find the most affected Bank by stock prices
- To compare the public sector and private sector NPA behavior

Hypothesis --

Null Hypothesis H_{0} : There is no significant relationship between NPA and stock prices.
Alternate Hypothesis H_1 :There is a significant relationship between NPA and stock prices.

Source of data –

The source of data for this research work is secondary data. Secondary data is the type of data which is collected from the already existing knowledge, data or figures. It is obtained from the already published platform. Secondary Data for ths study has been collected for the last 5 financial years i.e. from 2013-14 to 2017-18.

Data analysis tools --

For the study, regression test has been usedas a tool for data analysis. The annual average stock prices are compared with the Gross NPA ratios of respective banks for the last 5 financial years to find out the significance level.

IV. DATA ANALYSIS AND INTERPRETATION

Regression test --

Regression test is a quantitative research methodology which is run when the research study involves analysis if several variables having a relationship between a dependent variable with one or more independent variables,. While there are many varieties of regression analysis, at their core they all examine the influence of one or more independent variables on a dependent variable.

• Dependent Variable: These are the main factor that you’re trying to understand or predict.

• Independent Variables: These are those factors that you hypothesize have an impact on your dependent variable.

Gross Npa Regression Test Result --

STATE BANK OF INDIA

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2723.487866	2723.487866	2.034510869	0.00986
Residual	3	4015.935094	1338.645031		
Total	4	6739.42296			

PUNJAB NATIONAL BANK

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	16.23501676	16.23501676	0.015737119	0.01999
Residual	3	3094.9152	1031.6384		
Total	4	3111.150217			

ICICI BANK

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	1947.710188	389.5420375	1.122151097	0.011577
Residual	3	5207.080026	1735.693342		
Total	8	7154.790214			

HDFC BANK

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	679660.955	135932.191	137.6296663	0.00133
Residual	3	14814.99534	4938.331779		
Total	8	694475.9503			

The result of regression can be concluded by the figure of significance(F) which finds the level of relationship between the dependent variable and independent variable.

Accepting Null Hypothesis-

When the significance level is more than 0.05, then we accept null hypothesis and reject alternate hypothesis.

Rejecting Null Hypothesis-

When the significance level is less than 0.05, then we reject null hypothesis and accept alternate hypothesis.

Since the results of all 4 banks are less 0.05 in significance level, we will reject the null hypothesis and accept the alternate hypothesis.

Therefore we can conclude that, there is a significant relationship between the rising NPA and the stock prices.

V. FINDINGS AND SUGGESTIONS

- Rise in NPA is at its peak. A comparison between Public SectorBank and Private Sector Bank shows that PSBs contributes the most to rise in NPA.
- NPA levels have increased to multiple fold times and have swollen up to RS. 10 lakh Crore in Financial Year 2017-18 which is almost 7% of GDP.
- NPAs were 3% of gross advance in 2013 while is swollen to 11.6 % in 2018. The increase is higher for nationalized banks — from 2.9 % in 2013 to 14.6% in 2018 in comparison to privately-owned banks where the NPAs rose from 2 % of gross advances in 2013 to 3.1% in 2018.The system does not have enough capital to take care of its bad loans
- Rise in NPA is also due to relax lending norms provided to corporates and by not measuring their credit rating adequately. Due to competitive sector banks also provided huge amount of unsecured loan. Thus creating a huge pile of NPA.
- Around 80% of the credit is provided by PSB to industries and this part majorly forms a great chunk of NPA. It is also seen banks providing loan to those companies which have already record of defaulting.
- Public Sector Banks bad health leads to lower profitability which also in turn affects Government Income by way of Dividend hence impacting social and infrastructural development.
- It is observed that even though NPA level have rose stock price has also seen an upward trend, however banking sector has grown at rate slower than other sector due to blockage created by NPA.
- To ensure better reporting small banks should be merged to create single large bank which have more advanced procedure to grant loan and better disclosure policy.

VI. CONCLUSION

This study was to find out the significant relationship between the stock prices of the relevant banks and the Non-Performing Assets.Non-performing assets (NPA) is defined as a credit facility in respect of which the interest and installment of Bond finance principal has remained ‘past due’ for a specified period of time. NPA is used by financial institutions that refer to loans that are in danger of default the so called NPL. By performing the regression tests on the Net NPAs and the relevant annual average stock prices of the banks we found out that the significance level of all 12 banks was less than 0.05, which indicates that as per the theory, when the significance level is less than 0.05, we reject null hypothesis and accept the alternate hypothesis.

Since the significance level is less than 0.05, we reject null hypothesis and accept alternate hypothesis which indicates that there is a significant relationship between the stock prices of all 12 banks and their Non-Performing Assets (NPA). In conclusion to above, with the rise in the NPA in the Indian economy, various other elements are getting affected and there is a major role of NPA in affecting the stock market in the banking sector in past 5 years.

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