

Study of the Effect of Non Performing Assets (NPA) and Earning Per Share (EPS) of Public and Private Commercial Banks of India on their share Prices (2011 to 2015)**Prof. Nitin Bajirao Borse****MVP Samaj's Arts, Science and Commerce College, Ozar MIG
(Affiliated to Savitribai Phule Pune University, India)****Abstract:**

There are two types of NPA – Gross NPA and Net NPA. For present study Net NPA are considered. This paper is an attempt to correlate the NPA and share prices of Indian commercial Banks. Though the sample size is small but all major 11 banks (6 Public sector banks and 5 Private sector banks) were chosen for the study. 2010-11 to 2014-15 is the study period for this study. It is found that In the period of 4 years, NPA increase rate is higher in public sector banks than the private sector banks. NPA of private sector banks are well under control. This study shows that there is insignificant and negative correlation of NPA change and share prices change of Public sector banks. But in case of private sector banks it is positive correlation. It is found that instead of NPA change, EPS change is more correlated with share prices change in case of Indian commercial banks where the correlation is positively high.

Key words:

Non performing Assets (NPA), Earning Per Share (EPS), Public sector banks, Private sector banks, Indian banks, Share Price

Introduction:

It is understood that increasing NPA can badly affects the performance of the banks business and profitability. Most of the investor are watching the NPA changes though retain investor are not so keen about this. EPS give more realistic picture about the performance of the banks. There are many factors which affects the EPS of the Banks. NPA is one of them. In some cases EPS increases even though NPA is on higher side because banks other income generation sources are work effectively. It is found in Private commercial banks like HDFC. This paper is an attempt to analyze the relation between NPA and share prices as well as EPS and share prices of Indian commercial banks.

Hypothesis:

1. The Effect of EPS Change is more than the NPA Change on share prices of Indian Commercial Banks.
2. EPS Positively whereas NPA negatively affects to share prices of Indian Commercial Banks.

Aims and Objective:

1. To correlate the NPA with the Share prices in case of Indian Banks
2. To find out the variation in NPA – Share prices relation of Public Sector Banks and Private Sector Banks of India
3. To correlate the EPA with the Share prices in case of Indian Banks
4. To find out the variation in EPS – Share prices relation of Public Sector Banks and Private Sector Banks of India

Methodology:

Data: This work is totally depends on the secondary data/statistics published on reliable websites like <http://money.rediff.com>, <http://www.moneycontrol.com>, <https://www.edelweiss.in>, www.nseindia.com and www.bseindia.com

Study Period : the data related to NPA and ROA is taken for the period of financial year 31.03.2011 to 31.03.2015 (4 years)

Banks: 6 major Banks from Public sector and 5 Banks of Public sector are chosen for the study.

Statistical Tools: Simple statistical tools like average, correlation are widely used to find out results. Data is processed with the help of Excel worksheet.

Result and Discussion:

NPA and Share Prices of Indian Commercial Banks: Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. This paper is deals with the Net NPA of Indian banks.

Table. 1 - NPA and Share Prices of Indian Banks (31.03.2011)

Banks	NPA (31.03.2011)	Share Price (31.03.2011)	NPA (31.03.2015)	Share Price (31.03.2015)	NPA Change	Share Price Change(Rs.)
Public Sector Banks						
State Bank of India	1.63	277	2.12	267	+0.49	-10
Panjab National Bank	0.65	244	4.06	144	+3.41	-100
Canara Bank	1.11	626	2.65	368	+1.54	-258
Bank of India	0.91	478	3.36	195	+2.45	-283
Bank of Baroda	0.35	192	1.89	163	+1.54	-29
Union Bank of India	1.19	313	2.71	156	+1.52	-157
Private Sector Banks						
ICICI Bank	1.11	223	1.61	315	+0.5	+92
HDFC	0.2	469	0.25	1023	+0.05	+554
Axis	0.26	281	0.44	560	+0.18	+279
Yes	0.03	309	0.12	817	+0.09	+508
Kotak Mahindra	0.72	623	0.92	657	+0.2	+34

Source: <http://www.moneycontrol.com>¹, <https://www.edelweiss.in>²

(Calculated and Presented by researcher)

Table No. 2. Comparison of NPA of Major Private and Public Sector Banks of India

Bank	NPA (31.03.2011)			NPA(31.03.2015)			Absolute NPA increase		
	Public Sector Banks	Private Sector Banks	All Major Banks	Public Sector Banks	Private Sector Banks	All Major Banks	Public Sector Banks	Private Sector Banks	All Major Banks
Average	0.97	0.46	0.74	2.80	0.67	1.83	1.82	0.20	1.09
Standard Deviation	0.45	0.44	0.50	0.80	0.61	1.31	0.99	0.18	1.11

Calculated by researcher

It is observed that Net NPA of the major public and private sector banks has been increased during last 4 years but this increase is more significant in case of public sector banks than the private sector banks. The Net NPA of major private banks is more or less constant. Its increase is mere 0.20%. ICICI bank has highest NPA increase in private sector banks. SBI is showing good efforts in lowering the speed of NPA increase.³

EPS and Share Prices of Indian Commercial Banks: Earnings per share (EPS) is the monetary value of earnings per outstanding share of common stock for a company.⁴ Earnings per share or basic **earnings per share** is calculated by subtracting preferred dividends from net income and dividing by the weighted average common **shares** outstanding.⁵ Earnings per share (EPS) is the portion of a company's profit that is allocated to each outstanding share of common stock, serving as an indicator of the company's profitability. It is often considered to be one of the most important variables in determining a stock's value.⁶

Table No. 3 EPS and Share Prices of Indian Commercial Banks

Banks	EPS** (31.03.2011)	Share Price rs (31.03.2011)*	EPS** (31.03.2015)	Share Price rs (31.03.2015)*	EPS Change [^]	Share Price Change(Rs.) [^]
Public Sector Banks						
State Bank of India	13.01	277	17.55	267	4.54	-10
Panjab National Bank	27.99	244	16.51	144	-11.48	-100
Canara Bank	90.88	626	56.87	368	-34.01	-258
Bank of India	45.48	478	25.67	195	-19.81	-283
Bank of Baroda	21.6	192	15.32	163	-6.28	-29
Union Bank of India	39.71	313	28.02	156	-11.69	-157
Private Sector Banks						
ICICI Bank	8.94	223	19.27	315	10.33	+92
HDFC	16.88	469	40.76	1023	23.88	+554
Axis	16.51	281	31.04	560	14.53	+279
Yes	20.95	309	48.01	817	27.06	+508
Kotak Mahindra	11.1	623	24.16	657	13.06	+34

**from <http://money.rediff.com>⁷ * <http://www.moneycontrol.com>⁸ ^ Calculated by researcher

Table No. 4 Correlation of EPS & Share prices of Major Private and Public Sector Banks of India

Correlation	Indian Commercial Banks	Major Public Banks	Major Private Banks
EPS Change & Share Prices	0.91	0.88	0.93
NPA and Share Price	-0.71	-0.34	-0.74

Conclusion:

1. NPA of Major Indian Banks is increased in the study period of 4 years.
2. NPA increase rate is high in major Public sector banks than the major private sector banks. So the performance of share prices of private sector banks is more impressive than the share prices of Major public sector banks.
3. NPA is negatively affecting the share prices of Major Indian Banks.
4. Major Indian Private sector Banks share prices are more sensitive to NPA change as compare to Major Indian Public sector Banks
5. EPS and share prices of Major Indian Banks are highly and positively correlated. This means as the EPS increases or decreases. Share prices of Indian banks also changes accordingly.
6. Share prices of Major Public and Private Sector Banks of India almost responses equally to EPS changes.
7. EPS changes affect more to share price of Indian Commercial banks than the NPA changes.

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