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## PERFORMANCE EVALUATION OF KOTAK MAHINDRA BANK IN THE PRESENCE OF NPA- NON-PERFORMING ASSETS

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### **Abstract**

*The bank having the highest CASA ratio, Kotak Mahindra, is analyzed in this paper to determine whether it has stood to its rank performing efficiently or not. This has been done through evaluating the bank specific ratios in the presence of bank's massively affecting section- the NPA. The Statistical tool of correlation is employed over 8 years, from 2014-15 to 2021-22 to assess the relationship of NPA with the ratios like CAR, ROA, ROE, NIM, NPM and CASA. The conclusion derived from the analysis affirms that all the ratios have a remarkable association with the selected bank's NPA as expected.*

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**Keywords:** NPA, CAR, ROA, ROE, NIM, NPM, CASA ratio.

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### **Introduction**

The performance evaluation of bank is done selecting parameters of Capital size and Profitability. But in today's times, the rising levels of bad loans also have to be considered while framing condition of a bank. Therefore, even one of the factor of bad loans is included to verify its relation with the existing bank's performance indicators. Net NPA is taken into the study as it is a superior scale than Gross NPA about the financial status of the bank. Banks expect to have a lower ratio of NNPA. When the defaulting loans rise this ratio goes up.

### **Review of Literature**

(Meenatkshi & Kritikaa, 2022) the financial health of Kotak Mahindra Bank has been assessed with SWOT analysis for 2017-2021. Kotak Mahindra Bank's performance remained outstanding during the study period as the deposits and giving of Loans showed upward trend. (Prasanth, Nivetha, Ramapriya, & Sudhamathi, 2020) Stresses that out of the many variables that are significant with the NPA, CAR, ROE and ratio of loan to deposit showed a strong association with NPL for the banks under study. Whereas, cost effectiveness, bank size and loan growth displayed an insignificant effect on NPA. (Chaibi, 2016) The

handling of loan portfolio by Tunisian Banks and the quality of loans is assessed taking into consideration the bank specific indicators. The overall conclusion drawn is that cost efficiency and profitability are common for credit risk and bank size and capitalization influences the loan deterioration in banks. (Arora, Rohatg, & Sharma, 2015) The Non-Performing Assets of Kotak Mahindra Bank and Axis bank is analyzed to observe its growth and direction. The relation of NPA with profit as well as with loan disbursed is taken up for study. The conclusions drawn affirms that both these ratios are high in Kotak Mahindra bank as compared to Axis bank.

### **Objective:**

To find out the relationship between NPA with CAR, ROA, ROE, NIM, NPM, CASA ratio.

### **Hypotheses:**

H1= There is a significant association of NPA with CAR, ROA, ROE, NIM, NPM, CASA ratio.

### **Research Methodology:**

For the purpose of analysis Pearson's Coefficient correlation test is applied.

The implications of each ratios and the expected outcome of testing the hypothesis of finding the relationship of NPA with all other selected performance related ratio is discussed as follows:

Summary of variables and expected relationship with dependent variable (DV) -Net NPA.

DV	Independent variables	Notation	Details/Meaning	Expected Effect
NNPA	Capital Adequacy Ratio	CAR	It reflects the bank's ability to meet its obligations. However, the rising NPAs creates a need to flush in more capital to absorb the amount locked in the non-performing assets. Usually CAR goes up with the rising levels of NPA.	Positive
	Return on Assets	ROA	It displays the bank's efficiency in generating revenue. The negative impact of rising NPA lowers the profitability of the banks which is reflected in lower ROA ratio.	Negative
	Return on Equity	ROE	This ratio suggests the ability of the management to generate income from the sources like equity. The funds so raised through equity is used to extend loans but when these loans do not turn up, the Return on Equity falls. Hence lower ROE signifies high levels of NPA.	Negative
	Net Interest Margin	NIM	The bank gives interest on deposits and earns interest on loans given. NIM is the gap between these two interest source. Usually high ratio of NPA gives rise to low NIM.	Negative
	Net Profit Margin	NPM	The existence of NPA directly affects the profits as it increases the operating cost and provisions are made from profits	Negative
	Current Account Saving Account ratio	CASA	It shows how much of the money with bank comes from current and savings account. A	Positive

			higher CASA ratio is measurement of the financial health of the bank. It is observed that when NPA rises the need for more inflow is fund arises, as the banks have to keep their credit activity going. Hence this ratio tends to go up with the rising quantum of bad loans.	
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**Data Collection and Period of Study:**

Secondary data is collected from annual report of Kotak Mahindra Bank. Money control and RBI website. Period of study is 8 years (2014-15 to 2021-22).

**Sample selection:**

The bank having the highest CASA ratio as on 31<sup>st</sup> July 2022 amongst all the banks in the banking industry is selected for the study which Kotak Mahindra Bank.

**Analysis of Data:**

Table no1: Ratios of Kotak Mahindra Bank for 2014-15 to 2021-22

YEARS	NNPA	CAR	ROA	ROE	NIM	NPM	CASA
2014-15	0.64	17.00	1.76	13.19	3.98	19.19	36.35
2015-16	1.21	16.00	1.08	8.72	3.58	12.75	38.06
2016-17	0.71	17.00	1.58	12.35	3.78	19.27	43.99
2017-18	0.75	18.00	1.54	10.89	3.59	20.68	50.75
2018-19	0.98	17.00	1.55	11.47	3.60	20.32	52.49
2019-20	1.26	18.00	1.65	12.25	3.74	22.08	56.16
2020-21	1.06	22.26	1.81	11.01	4.00	25.94	60.44
2021-22	0.92	22.69	1.99	11.9	3.91	31.7	60.68
Pearson Correlation ('r')	1	0.089	-0.329	-0.538	-0.262	-0.060	0.212
Sig.(2-tailed)		0.835	0.427	0.169	0.530	0.888	0.614

Source: Annual Report of Kotak Mahindra Bank and Author's Computation

**Findings:**

1. Association of NNPA with CAR: it is found that, there is strong positive correlation between the bank's Net NPA and Capital Adequacy Ratio,  $r=0.089$ ,  $n=8$  however the relationship was not significant ( $p=0.835$ )
2. Association of NNPA with ROA: there is a weak negative correlation between ROA and NNPA,  $r=-.329$ ,  $n=8$ , however the relationship was not significant ( $p=0.427$ )
3. Association of NNPA with ROE: there is a moderate negative correlation between ROE and NNPA,  $r=-.538$ ,  $n=8$ , however the relationship was not significant ( $p=0.169$ )
4. Association of NNPA with NIM: there is a weak negative or no correlation between ROA and NIM,  $r=-.262$ ,  $n=8$ , however the relationship was not significant ( $p=0.530$ )
5. Association of NNPA with NPM: there is a weak negative correlation between NNPA and NPM,  $r=-.060$ ,  $n=8$ , however the relationship was not significant ( $p=0.888$ )
6. Association of NNPA with CASA: there is a weak positive correlation between NNPA and NPM,  $r=.341$ ,  $n=8$ , however the relationship was not significant ( $p=0.408$ )

**Conclusion:**

When comparing six different ratios with the Net NPA ratio of Kotak Mahindra Bank during the period 2014-15 to 2021-22, it is concluded that only CAR and CASA has shown positive relationship with the NNPA but ROE, ROE, NIM and NPM all show negative correlation with the bank's Net NPA Ratio. Summation of the study is an indication towards the increasing effects of NPA on all the working of the bank. If these bad loans are not put under control they would become the cause of bank's unhealthy state.

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