



AN EMPIRICAL STUDY OF NON-PERFORMING ASSETS WITH SPECIAL REFERENCE OF STATE BANK OF INDIA (SBI)

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ABSTRACT

The banking sector of India plays a vital role in the development of economy and the growth of banking sector majorly depends upon Non-Performing Assets (NPAs). NPAs is one of the crucial tool to evaluate the financial position of different banks. NPAs is a loan and an advance for which the principle and interest payment remain overdue for a period of 90 days. The purpose of this article is an attempt to analyse the trends of NPAs on the banking sector especially considering the State bank of India (SBI) for the period of 2012-2022. The data used for writing this article has been collected from secondary sources.

KEYWORDS: Non Performing Assets (NPA), banking sector, State Bank of India (SBI), financial position, economic development.

1. INTRODUCTION

Banking is considered as the life blood of every country's economy. Banks are creators and provider of credit. The Indian banking system is mainly bifurcated into formal (organized) and informal (unorganized) banking system. The liabilities of banks are part of the money supply because banks plays a crucial role as it intermediates between the flow of funds belonging to those who save a part of their income and those who invest in productive assets. The objective of strengthening the real economy and its healthy and orderly growth can be fulfilled by a strong banking system.

Non-Performing Assets (NPAs)

Non-performing assets (NPAs) constitute important part of banks' operations. A Non-Performing Asset commonly known as NPAs refers to the classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. It is those assets of the banks which do not bring any return. In most of the cases, debt is classified as non-performing when an individual does not pay loan which he/she has taken for more than 90 days. 90 days of non-payment is the standard period of debt to be categorized as non-performing asset.

Types of Non-Performing Assets

1. Standard Assets : Standard Asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business.

2. Sub-Standard Assets: A Sub-Standard asset is one which has been NPA for a period not exceeding 12 months.
3. Doubtful Assets: A Doubtful asset is one which has been NPA for more than 12 months.
4. Loss Assets: A Loss asset is one where the loss has been identified by the bank, through the internal or external auditor or by the central bank inspectors. The amount has not been written off, wholly or partly even after 3 years.

Types of NPA

* Gross NPA

* Net NPA

- **Gross NPA:** 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. It can be calculated with the help of following ratio:

$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}$$

- **Net NPA:** are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. In India, bank's balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the



difference between gross and net NPA is quite high. It can be calculated by following:

$$\text{Net NPAs Ratio} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}$$

2. SCOPE OF THE STUDY

The present study analysis the non-performing assets in public banking sector with special reference to State Bank of India.

3. OBJECTIVES OF STUDY

1. To analyse the trends of NPAs from 2011- 2021 of SBI.
2. To find out the reason behind the highest amount of NPA in SBI.
3. To make comments relating to the growth of NPAs.

4. LITERATURE REVIEW

Sagarika Mohanty (June 2021) in her paper titled as “Comparative study of NPAs in selected public sector banks and private sector banks in India”, mentioned the relationship between NPA with the key parameters of selected banks and finds out the impact of NPA on Net profit and Return on assets (ROA) of the selected banks.

Girnara Mona Rameshbhai (JULY 2020), research paper titled as “Comparative analysis of NPAs in public sector banks and private sector banks” has taken five public banks and five private banks to study NPAs. This paper evaluated various ratios of NPAs on the basis of secondary data. It is found that NPAs is high in public sector banks as compare to private sector banks. Amount of gross NPAs and Net NPAs are high in public sector bank with respect to private sector banks.

Rishabh Adey, Deevanshu Yash Goyal, MD. Nizam Siddiqui, Lata dhruw (2020) They found that NPAs drain the banks’ capital and weaken its financial power. There are more NPA in public sector banks in comparison to private sector banks. There should be more productive and efficient strategy to manage NPA by financial institution and banks.

Mr. Santosh Shah, Mr. Dhruv Sharma (2019), in their research paper titled as “Non-Performing Assets: A Comparative Study of SBI & HDFC Bank” studied the impact of non-performing assets (NPA) and the reasons due to which assets becoming NPAs and compared the NPA trends of SBI and HDFC for past years. The aim of this paper is to find the major factors which impact NPAs of banks.

Harani B, Subramanyam Mutyala (DEC 2019), their research paper titled as “A Comparative analysis of NPAs of public and private sector banks in India – An endless battle” This study has been analysed the sector-wise classification of NPAs and loan assets of public and private sector banks. It also investigated the gross NPAs, gross advance and gross NPAs ratio of public and private sector banks in India. The non –priority sector loans have worsened NPAs which cause headache for public sector banks.

5. METHODOLOGY

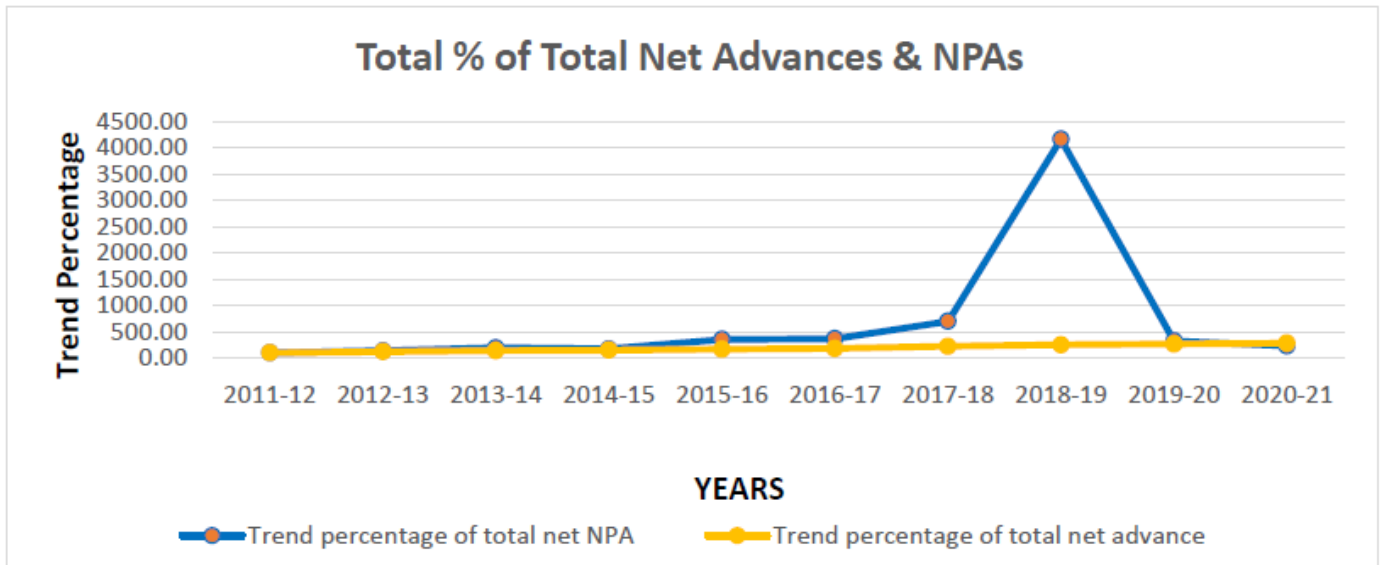
The data collected for this paper is wholly based on secondary source which is descriptive in nature. The period of this study is of ten years from 2011-12 to 2020-21. The data were collected from Annual Reports and accounts of Public Sector Banks published Doctoral Dissertations on Banking, different journals on banking, economics and Finance; Publications and Websites; Newspaper- Financial Express, Times of India and Economic Times.

6. DATA ANALYSIS AND INTERPRETATION

Table 1: Shows Total Net NPAs to Total Net Advances Ratio

YEAR	Net NPA	Advance	Trend percentage of total net NPA	Trend percentage of total net advance	Net NPA to Ratio
2011-12	15,818.85	867578.89	100.00	100.00	1.82
2012-13	21,956.48	1045616.55	138.80	120.52	2.1
2013-14	31,096.07	1209828.72	196.58	139.45	2.57
2014-15	27,590.58	1300026.39	174.42	149.85	2.12
2015-16	55,807.02	1463700.42	352.79	168.71	3.81
2016-17	58,277.38	1571078.38	368.40	181.09	3.71
2017-18	1,10,854.70	1934880.19	700.78	223.02	5.73
2018-19	6,58,947.40	2185876.92	4165.58	251.95	3.01
2019-20	51,871.30	2325289.56	327.91	268.02	2.23
2020-21	36,809.72	2449497.79	232.70	282.34	1.5

Figure 1



Analysis and Interpretation

The above table represents the trend percentage of Net NPA and Net Advance in Figure 1. From the year 2011-12 percentage of total Net NPA was continuously increased till 2013-14. Then in 2014-15 there was a decline in the percentage of total Net NPA from 196.58% to 174.42%.

Again from the year 2015-16 it has started to increase and in 2018-19 it was on its peak. In next two years (2019-20 & 2020-21) it declined from 4165.58% to 327.91% and 232.70%.The trend percentage of Net advances was increasing throughout the years.

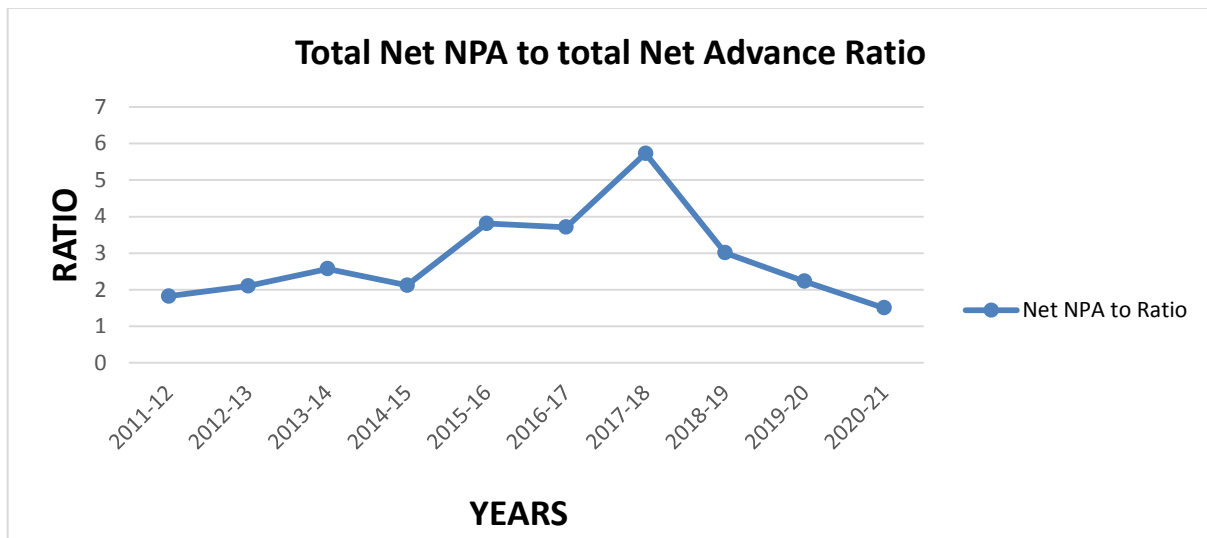


Figure 2

Analysis and Interpretation

The above Table 1 projects the total net NPA to Total Net Advance (NPA ratio) of State Bank of India. It shows that Net NPA ratio in 2011-12 was 1.82% then in 2012-13 and 2013-14 it was continues to increase to 2.1% and 2.57%, but in 2014-15 there was a slight decline in Net NPA ratio from

2.57% to 2.12%.Then in 2015-16 it again started to increase by 1.69%, in 2016-17 there was a slight decrease of Net NPA ratio to 3.71%.In the year of 2017-18 Net NPA ratio was at its peak which was 5.73%, then from 2018 it started to fall to 3.01% in 2018-2019, 2.23% in 2019-2020, 1.5% in 2020-2021.

Table 2: Shows Total Gross NPAs to Total Gross Advances Ratio

YEAR	Gross NPA	Gross Advance	Trend percentage of total Gross NPA	Trend percentage of total Gross Advance	Gross NPA to Ratio
2011-12	39676.46	835293.89	100.00	100	4.75
2012-13	51189.39	1023787.80	129.02	122.57	5
2013-14	61605.35	1244552.53	155.27	149.00	4.95
2014-15	56725.34	1334713.88	142.97	159.79	4.25
2015-16	98172.8	1510350.77	247.43	180.82	6.5
2016-17	112342.99	1628159.28	283.15	194.92	6.9
2017-18	223427.46	2047914.39	563.12	245.17	10.91
2018-19	172753.6	2294204.52	435.41	274.66	7.53
2019-20	149091.85	2424257.72	375.77	290.23	6.15
2020-21	126389	2537931.73	318.55	303.84	4.98

Figure 3

Analysis and Interpretation

The above table shows the total gross NPA to total gross advances ratio of State Bank of India. It shows that Gross NPA ratio in 2011-12 was 4.75% then in 2012-13 and 2013-14 it was continues to increase to 5% and 4.95%, but in 2014-15 there was a slight decline in Gross NPA ratio from 4.95% to 4.25%.Then in 2015-16 it again started to increase by 2.25%, in 2016-17 there was a increase of Gross NPA ratio to 6.9%.In the year of 2017-18 Gross NPA ratio was at its peak which was 10.91%, then from 2018 it started to fall to 7.53%in 2018-2019,6.15 % in 2019-2020, 4.98% in 2020-2021.

7. DISCUSSIONS & FINDINGS

As we all know banking system is the backbone of the economy .The banking system is severely affected by NPAs, both public sector and private sector banks are trying to cope up with that. NPA (Non- Performing Assets) of Indian Banks has been increased significantly in past ten years. In India the worst affected sector from NPA (Non –Performing Assets) is Public Sector Banks as compared to private sector banks. Among the major public sector banks, State Bank of India has the highest amount of NPA at over INR 1.21 lakh crore followed by Punjab National Bank, Bank of India, Bank of Baroda, Canara Bank and Union Bank of India.

The reason behind the highest amount of NPAs in State Bank of India is due to providing large number of loans in every sector of the economy but unable to recover as-

- It is one of the largest and leading bank of India with a network of 22000 branches spread all over in India and outside India.
- It is one of the most trustable bank of India and having the easiest terms and conditions regarding granting loans and advances as compare to other banks.
- Currently SBI is holding 1/4th of the total loan and deposits in the current financial market providing loans in every sector of the economy i.e. personal loan ,home loan, education loan, auto loan ,loan against property, MSME loan (Micro Small Medium Enterprises) etc.

- Many times due to change in government, in the light of political agenda they sometimes waive the loan amount of small farmers and businessmen.
- Sometimes people intentionally don't pay the loan amounts for taking advantages of mentioned political tactics. Due to which NPA continues to increase which ultimately effecting the economy adversely.

While analysing above tables and graphs presenting the trends of Net NPA Ratio and Gross NPA Ratio, we outline the following points-

- Trend percentage of Gross Advances recorded continuous increasing trend from 100 percent to 303.84 percent from the year 2011-12 to 2020-21.
- Trend percentage of Gross NPA showed increasing trend till 2013-14 but in 2014-15 falls by 12.3 % and later it increased and reached to at its peak in the year 2017-18 i.e. 563.12 and started declining and reached to 318.5 in 2020-21.
- The ratio of Total Gross NPA to gross advance of State Bank of India recorded highest ratio 10.91 in the year 2017-18. Later it decreased continuously from 2017-18 to 2020-21
- Trend percentage of Net NPA showed increasing trend till 2013-14 but in 2014-15 fall by 22.16 % and later it increased and reached to highest level in the year 2018-19 i.e. 4165 .58 and then started declining and reached to 232.7 in 2020-21
- Trend percentage of Net Advances recorded continuous increasing trend from 100 per cent to 282.34 per cent from the year 2011-12 to 2020-21.
- The ratio of Total Net NPA to Net advance of State Bank of India recorded highest ratio 5.73 in the year 2017-18 Later it decreased continuously from 2017-18 to 2020-21

As from the above data we found that the Net and Gross advances were continuously increasing in all the years. In every next year advances were higher than the previous year, despite of this the Net and Gross NPA ratio declined two times in last ten years. This happened mainly due to the deliberate increase of provision coverage ratio by SBI .In the year of 2019-20 ,the profit was up surged by three times and



also some amount of NPAs were recovered by the SBI as it has reduced its marginal cost of lending rate .

8. SUGGESTIONS

- It is suggested that SBI need to control its provisions towards NPA by taking some precautions for the recovery of the loans
- Bank need to take precautions regarding the credit assessments and should take measures in pre and post-sanction of the loans to avoid slippages and standard assets of NPA.
- The bank should conduct proper internal audit with strict monitoring as the report of RBI (2019) showed that SBI has under reported their NPAs.
- Government should consider economic health of the country while announcing any kind of benefits in favour of common people.

9. CONCLUSION

The banking sector has the most impact on the economy of the country. Therefore maintaining the asset quality in banks is important for the development of bank. NPAs, especially in public sector banks mainly considering SBI are constantly increasing year by year. NPAs are one of the most threatening issue faced by banking sector in the economy. As NPAs are the amount which remains unrecovered and hence unproductive which ultimately effects the profitability of the bank. It is not possible for any bank to maintain zero percent NPA but through an efficient monetary mechanism and controlling measures, bank can reduce the level of NPAs. So, this study recommend to the respective bank officials to take the necessary steps to minimize the NPA and improve recovery mechanism.

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