

AN APPRAISAL OF NON- PERFORMING ASSETS OF STATE BANK OF INDIA

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ABSTRACT

Commercial Bank is the backbone of the development of our country. It mobilizes savings in urban areas and makes them available to large and small industries and trading units mainly for working capital requirements. It also serves various social objectives but there are many challenges facing by the commercial bank in its operations. The main challenge of commercial bank is to disbursement of funds in form of loans and advances. Loans and advances constitute the largest item of assets for bank. An account would become Non Performing Assets (NPA) if interest charged to that particular borrower is not realized despite the account being fully secured. In other words, NPA means that part of loans and advances which don't generate regular income. It creates a big problem for the bank as well as an economy of any country. If there is a continuous increase in NPA then it is very dangerous for the existence of the bank because it hamper the repayment capacity of the bank. The sound financial position of bank depends upon the recovery of loans or levels of NPA. To improve the efficiency and profitability of banks the NPA needs to be reduced and controlled. This paper highlights the NPA of State Bank of India which is the largest public sector commercial bank of India. This study is based on secondary data which has been collected from the website of R.B.I., and selected banks and other authentic sources. This study has covered five years from 2017-18 to 2021-22. This paper finds that State Bank of India was suffering the problem of Non-Performing Assets. It badly effects on profitability position. To reduce the non-performing assets the management of S.B.I. must work efficiently and must take precautionary measures before granting the loan to borrower.

Keywords: Non-Performing Assets (NPA), Profitability, Return on Assets (ROA), Net Worth (NW).

Introduction

The organized sector of money market consists of commercial banks in India, which includes private sector and public sector banks and also foreign banks. The organized banking system in India can be broadly divided into three categories, viz. the central bank of the country known as Reserve Bank of India, the commercial banks and the co-operative banks. The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country. It keeps the reserves of all commercial banks and hence is known as the "Reserve Bank". Commercial banks act as a vehicle through which demand deposits act as a medium of exchange and circulate among the public. In other words, commercial banks mobilize savings in urban areas and make them available to large and small industries and trading units mainly for working capital requirements. It is the backbone of the development of our country. Commercial banks serve various social objectives but there are many challenges confronting the commercial banks in its day-to-day operations. The main challenge facing the commercial banks is the disbursement of funds in quality assets (Loans and Advances) or otherwise it leads to Non-Performing Assets (NPA). NPA refers to classification for loans on the books of financial institutions that are in default or are in arrears on scheduled payments of principal or interest. In other words, NPA means all those assets which don't generate regular income. According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called as a Non-Performing Assets.

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NPA have adverse impact on the banking system because these accounts show that the money of bank is locked and cannot be further used for any productive purpose. If there is a continuous increase in NPA then it is very dangerous for the existence of the bank because it hampers the repayment capacity of the bank. The sound financial position of bank depends upon the recovery of loans or its level of Non-Performing Assets (NPA). To improve the efficiency and profitability of banks the NPA needs to be reduced and controlled. This paper highlights the concept of NPA, causes of NPA, Intra comparison of NPA of State Bank of India of yester years through various accounting and statistical tools and also provides some suggestions how to overcome this burden of NPA in State Bank of India.

Review of Literature

The management of Non-Performing Assets in Indian Public Sector Banks: Concepts, methods, implementations and progress is written by Goutam Bhowmik. In this book author has discussed about various aspects of NPA in Indian Public sector banks. It evaluates critically role of RBI and Government of India in reducing NPA of Public Sector Banks. It also covers NPA management and NPA in priority sector.

Royal Payel and Smanta Pradip Kumar (2017) has concluded in his research paper "Analysis of Non-Performing Assets in Public Sector Banks of India" that the banks have suffered huge losses due to NPA. Banks need to be more careful while granting loans and transparency in disclosure norms should be followed by the banks.

Ahmad, J (2009) examined the management of Non-Performing assets of commercial banks in India and concluded that Indian banking has huge quantum of NPAs and the effective management of NPA is essential to speed up of the profitability of public sector banks.

Kalara, J.K. and Singla, S.K (2011) has studied the comparison of Non-Performing Assets of selected Public Sector Banks and concluded that the majority of the managers are of the opinion that if the due care and caution are taking at the time of sanctioning a loan, an asset will not turn into non-performing assets. If proper management information system is to be developed and co-ordinate between the banks and provide the list of the defaulters, the level of NPA can be reduced to a great extent.

Roa & Patel (2015) studied Management of Non- Performing Assets of public sector banks, private sector banks and foreign banks in India. This paper highlights the aggregate data of public sector, private sector and foreign banks from the year 2009-2013. This study finds that gross NPA to gross advance is increasing for public sector banks.

Dr. Bhagwan karad, Minister of State for Finance present in a written reply to parliament that the Gross NPA of public sector banks have doubled in the last seven years to Rs 5.40 lac crore 2021 from Rs 2.24 lac crore in 2014. SBI was in the topped list, with its bad loans raising to Rs 1.21 lac crore as on Sept, 2021 from Rs 74482 crore in June 2014. As of 30th sept 2021 SBI has stressed assets including restructured standard advances worth Rs 123386 crore out of Which about Rs 1.21 lac crore its Gross NPA.

Objectives of the Study

- To study the concept of NPA
- To study the causes of NPA
- To intra comparison of the trends of NPA and operational performance of State Bank of India from 2017-18 to 2021-22.
- To investigate the impact of NPA on profitability of State Bank of India
- To offer suggestions based on findings of the study.

Research Methodology

Sources of Data

The present study is an analytical and descriptive nature based on secondary data which has been collected from the website of Reserve Bank of India, selected banks, and authentic sources.

Sample Design

In our study we have taken only State Bank of India.

Tools and Technique Used

Accounting tools such as Ratio analysis, trend analysis and statistical methods such as mean, standard deviation, coefficient of correlation are used.

Study Period

This study has covered five years data from 2017-18 to 2021-22.

Concept of Non-Performing Assets

In the advances of a bank, term loan, cash credit, overdraft and discounted bills are included. Bank advances are to be classified among performing and non-performing assets. Advances which provide continuous or regular increase called performing assets. Non-Performing assets mean an asset which does not provide installment of principal and interest income for a definite time period. According to RBI, term loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-Performing Asset. However, in terms of agriculture/ farm loans: the NPA is defined as under: for short duration crop agriculture loans such as paddy, jowar, Bajra etc. If the loan (installment/interest) is not paid for 2 crop seasons, it would be termed as a NPA. For long duration crops, the above would be/crop season from the due date. Thus, a Non-Performing Asset (NPA) is a loan or an advance where.

Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

- The account remains out of order in respect of an overdraft/cash credit (OD/CC).
- The bill remains overdue for a period of 90 days in the case of bills purchased and discounted.
- The installment of principal or interest remains overdue for two crop seasons for short duration crops.
- The installment of principal or interest remains overdue for one crop season for long duration crops.
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.

In respect of derivative transactions, the overdue receivables representing positive mark to market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Technically NPA can be Classified in Two Types

- **Gross NPA:** It is an overdue which is considered irrecoverable. It consists of all the non-standard assets like as sub-standard, doubtful and loss assets. In other words, Gross NPA is the amount which is outstanding in the books, regardless of any interest recorded and debited.
- **Net NPA:** Net NPA is Gross NPA less interest debited to borrowed and not recovered or recognized as income.

There are many causes of NPA. One of the main reasons of rising NPA is the relaxed lending norms especially for corporate sectors owners and credit rating is not analyzed properly. Also, to face competition banks are hugely selling unsecured loans which attributes to the level of NPA. 5 sectors Textile, Aviation, Mining, Infrastructure contributes to most of the NPA, since most of the loan given in these sectors are by PSBs, they account for most of the NPA. Public Sector Banks provide around 80% of the credit to industries and it is this part of the credit distribution that forms a great chunk of NPA. Last Years, when Kingfisher was marred in financial crisis, SBI provided it huge amount of loan which is not able to recover from it. The lack of bankruptcy code in India and sluggish legal system makes it difficult for banks to recover these loans from both corporate and non-corporate.

About SBI

State Bank of India (SBI) is an Indian multinational public sector banking and financial services statutory body, fostering the nation's 2.6 trillion-dollar economy and servicing the hopes of its vast population. SBI plays a vital role in mainly the Government of India's Digital India initiative reality. It provides a wide range of products and services to individual's commercial enterprises, large corporate, public bodies and institutional customers through its 22,010 branches and various outlets, joint ventures, subsidiaries and associate companies. It has always been in the forefront to embrace changes without losing sight of its values such as transparency, sustainability, social responsibility and customer service.

Trends of Non-Performing Assets in SBI

The trends of Gross Non-Performing Assets and Net Non-Performing Assets of S.B.I. from 2017-18 to 2021-22 has been depicted in table 1.

Table 1: Gross NPA and Net NPA

Year	Gross NPA			Net NPA		
	Gross NPA (Rs in crore)	Gross NPA % of Advance	Trend %	Net NPA (Rs in Crore)	Net NPA% of advance	Trend %
2017-18	223427.46	10.91	100	110854.70	5.73	100
2018-19	172750.36	7.53	69.02	65894.74	3.01	52.53
2019-20	149091.85	6.15	56.37	51871.30	2.23	38.92
2020-21	126389.02	4.98	45.65	36809.72	1.50	26.18
2021-22	112023.37	3.97	36.39	27965.71	1.02	17.80
Average			61.49			47.09

Source: Compiled from SBI Annual Reports (2017-18 to 2021-22)

Table 1 shows the trend of SBI regarding Gross NPA and Net NPA. An international standard of gross NPA shows that it would be 2 to 3 percent. The gross NPA which stood at 10.91 per cent in the year 2017-18 gradually decrease to 3.97 per cent in the year 2021-22. Accordingly, the Net NPA of S.B.I. also decrease from 5.73% in the year 2017-18 to 1.02 % in the year 2021-22. The trend percentage of Gross NPA and Net NPA shows that 38.51% gross NPA and 52.91 per cent net NPA of SBI has decreased during the period under study.

Impact of NPA on Profitability

Profitability is the most important part for analyzing the financial health of any business enterprise. Bank is also a business enterprise plays an important role in the development of the country. So all banks are required to maintain good profitability position but the NPA pressurizes the banks and badly affect the profitability of banks. Increase in profits leads to a lower dividend pay-out by the banks and affects the ROI expectations of the customers. For appraising the impact of NPA on profitability of SBI, we have estimated Net-worth of SBI after accounting for net NPA of SBI and Return on Assets (ROI).

Table 2 Shows the Impact of NPA on Net Worth of the State Bank of India

Table 2: Net NPA and Net Worth

Year	Capital (in Rs Crore)	Reserves & Surplus (in Rs Crore)	Total Net Worth (in Rs Crore)	Net NPA (in Rs Crore)	% NPA to NW	Trend % of NPA to NW
2017-18	892.46	218236.10	219198.56	110854.70	50.59	100
2018-19	892.46	220021.36	220913.82	65894.74	29.90	59.10
2019-20	892.46	231114.97	232007.43	51871.30	22.36	44.20
2020-21	892.46	252982.73	253875.19	36809.72	14.50	28.66
2021-22	892.46	279195.60	280088.06	27965.71	09.98	19.73
Average					25.47	50.35

Source: Compiled from SBI Annual Reports (2017-18 to 2021-22)

It is evident from Table 2 that trends of NPA to NW are decreasing during the study period. The estimated share of Net NPA to Net Worth was as high as 50.59 percent in 2017-18, while it was lowest in 2021-22 as 09.98 per cent. Due to high NPA SBI has suffered loss in 2017-18 and NPA to Net Worth percent decreased 49.65 percent. The average percentage of NPA to NW was 25.47 and it has increased about 49.65 percent. Thus, it is clear from above table that NPA affect to Net worth of SBI but the trend is decreasing. This position highlights that SBI has special attention in the management of NPA.

Table 3: NPA and Return on Assets

Year	Total Assets (Rs in crore)	Net Profit (Rs in crore)	Existing ROA	Net NPA (Rs in crore)	Bank Rate	O.C. of Net NPA	New Net Profit	Actual ROA
2017-18	3454752	-6547	-0.19	110854.70	6.25	6928	381	0.01
2018-19	3680914.25	862	0.02	65894.74	6.75	4448	5310	0.14
2019-20	3951393.92	14488	0.37	51871.30	5.40	2801	17289	0.44
2020-21	4534429.63	20410	0.45	36809.72	4.25	1564	21974	0.48
2021-22	4987597.41	31676	0.64	27965.71	4.25	1189	32865	0.66
Average			0.23					0.35

Source: Compiled from SBI Annual Reports (2017-18 to 2021-22)

NPA directly affect on Return on Assets (ROA). Table 3 shows the position of Total Assets, Net Profit, Net NPA and return on Assets from 2017-18 to 2021-22. The table shows that in 2017-18 ROA of bank is -0.19 percent while the estimated actual ROA of the bank is 0.01 percent. Existing ROA and actual ROA have been continuously improving. In 2021-22 existing ROA is 0.64 percent and actual ROA is 0.66. If income on NPA is allowed to added back to the profit of bank, probably SBI would have one of the top-rated banks in terms of ROA. The average existing ROA is 0.23 percent and estimated actual ROA was 0.35 percent. This situation of SBI proves that NPA are a biggest challenge of SBI. The ROA of SBI is improving every year due to following the good NPA management.

Remedies of NPA

There are a number of factors responsible for weak performance of bank and as a result accounting turning into NPA. The major chunks of the profits of SBI are suffering due to Non-Performing Assets. If SBI wants to increase their profitability then the reduction of NPA is significant. The following effective remedies may be helpful to reduce the NPA:

- Bank needs adequate manpower for effective management.
- Awareness & Training camps should be organized by bank for providing knowledge about the NPA.
- The credit section should carefully watch the working signals viz. non-payment of quarterly interest, dishonor of cheque etc.
- Effective inspection system should be implemented.
- Checking financial projections like profitability ratios, liquidity ratios, cash book and bank statements of customer.

Conclusion

Non-Performing Assets is that part of advances of bank which does not provide installment of principal and interest income for a definite time period. It creates a big problem for the bank as well as economy of India. Due to NPA, money of bank is locked and cannot be further used for any productive purpose and has directly impact on profitability of bank. There are many causes of NPA. If due care and caution are taken by the manager at the time of sanctioning a loan, an asset will not turn into non-performing assets. State Bank of India is a multinational Public Sector Bank of India. Today, SBI is suffering the problems of Non-Performing assets. The trends of gross NPA and Net NPA are decreasing. NPA badly impact on profitability. Due to decreasing trend of NPA to NW and NPA to Advance of SBI, Return on Assets is increasing. Thus, it is clear from the study that NPA of SBI adversely impact on profitability position but Bank has taken proper initiative for reducing NPA during the period under study. It highlights the better management of SBI team regarding NPA. We suggest the management of SBI that they should establish effective credit monitoring-Strategy, proper evaluation of credit proposals, proper training to the staff in credit risk management, continuous performance evaluation of borrowers, develop proper management information system and improving the coordination between the banks and defaulters of loan. So that NPA can be reduced to great extent. SBI should also adopt the responsibility accounting and responsibility should be fixed on case-to-case basis.

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