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A STUDY OF NON PERFORMING ASSETS IN PUBLIC SECTOR BANKS WITH SPECIAL REFERENCE TO STATE BANK OF INDIA

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ABSTRACT

The magnitude of the NPAs in the Indian public sector Banks has been quite serious as well as unprecedented in scale. The situation regarding the NPAs is not sustainable, given the present trend of continuous deterioration that has taken place until recently. The long-held notion that the NPAs of public sector Banks has been mostly due to the priority sector lending has been disproved and the incidence of NPAs in non-priority sector has been much serious, so much so that some of the public sector Banks have been handicapped due to the deterioration in their capital adequacy ratios. Still, there does not seem to be a strong academic base of knowledge explaining the causes of Non-Performing assets among the Indian public sector Banks. The Banks managements seem to be finding it very difficult to cope with the rising NPAs and to develop appropriate mechanisms to prevent the occurrence of bad loans. From the borrowers perspective, very little is known regarding the causes of NPAs. There appears to be very meager understanding of the specific causes that lead to the problem of Non-Performing Assets. Though there is a general explanation that the Banks ability to carry out proper credit evaluation is lacking and monitoring by the Bankers after the loans are disbursed is unsatisfactory. There is also a general explanation that the fall in economic growth has resulted in the increased incidence of Non-Performing Assets. Different authorities also tend to opine that priority sector loans lead to higher incidence of Non-Performing Assets. However, there are many important questions that do not appear to have satisfactory answers. Hence, the present study proposes to carry out an academic study to place on record the perspective of the borrowers with reference to the Non-Performing Assets that have taken place in the premier public sector Bank of India, the State Bank of India.

Keywords: *Knowledge, Non Performing, Evaluation, Perspective, Economic, Knowledge, Obligations.*

Introduction

Most of the studies that have been carried out in the broad area of Non Performing Assets in Indian Banking system delve on the problem from the perspective of macro analysis. It is quite striking that there are no studies that have been carried out on the largest and most important public sector Bank in the nation. The studies are also concentrated on the trend analyses of the Non-Performing Assets of different sets of Banks. There are very few studies that have focused on the standpoint of the small individual borrowers that have not been able to meet their obligations towards the loans availed from the premier Bank of the nation. Almost all the studies have identified the reasons for incidence of Non-Performing Assets from the standpoint of the Banks alone and very few studies have attempted to anatomise the causes of incidence of Non-Performance from the standpoint of the borrowers. Another important aspect of the studies that have been carried out on the Non Performing Assets in the Indian Banking sector is that they have been focused on the large accounts relating to corporate borrowers. The fundamental purpose of the study is to explore and analyse the Non Performing Assets of the SBI in the state of Karnataka, with a view to manage the same in an effective manner. This purpose leads to a set of relevant objectives that could be realized by following a disciplined academic research Endeavour. The Bank that has been focused upon in the present study is the State Bank of India, the largest Bank of the

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nation in terms of most metrics. It has the maximum coverage in terms of geographies and types of loan, ranging from very small ones to the largest ones. However, it may be necessary to carry out studies covering all kinds of Banks operating in India to get a sound understanding of the extent of the problem.

Nonperforming Assets – The Burning Issue

Over the period of about a decade from now, the Indian Banking system has witnessed the endemic problem of bad loans. The problem of bad loans appears to have been a consequence of the global financial crisis that occurred towards the end of the previous decade, which caused the failures of some of the major international financial institutions like the Lehman Brothers. While India is said to have come out of the global financial crisis somewhat unscathed, the Indian Banking system has been witnessing serious stress on its asset quality with a consistent rise in the magnitude of the bad loans that both the public sector and private sector Banks have been reporting over the past decade. The latest explosion in the bad loans problem has resulted primarily due to the severe problems that the big-ticket borrowers from the corporate sector have reported due to partial and complete business failures. There have been severe problems with regard to the viability of many of the big projects from the areas of power, steel, real estate, non-Banking financial ventures, etc. The natural consequence of these problems has been that the Indian Banking sector which is backbone of the Indian economy has come to suffer seriously.

NPAs in Public Sector Banks

Its ability to continue to finance the economic growth has become quite weak. The profitability of the Banks has taken a serious beating and their asset quality has been continuously deteriorating. Non-Performing Assets are quite inimical to the interests of the commercial Banks. It may be appreciated that the commercial Banks have high extent of leverage since their capitals would only be a fraction of their total assets. Hence, if the asset quality deteriorates by a given proportion, it will affect the capital adequacy of the Bank in an extremely amplified manner. There are many other ways by which the Non-Performing Assets the operations of the commercial Banks. The following sections make an attempt to explain the different aspects of the negative impact of the Non-Performing Assets on the operations of the commercial Banks.The Indian economy, especially its Banking sector has been facing severe problems with regard to the burgeoning of the NON-PERFORMING ASSETS. The problem has been quite serious for many individual Banks that have been barred by the RBI from carrying on their normal Banking operations under the „prompt corrective action measures. The magnitude of the problem has been only increasing over the recent past and there seems to be no let-up in the seriousness of the problem. The growth potential of the overall economy itself has come to suffer due to the problem of bad loans; the problem has been compounded by the occurrence of some major Bank frauds that have seriously affected the confidence in the Banking system itself.

Implications of Non-Performing Assets

- **Non-receipt of interest income:** It is quite obvious that the asset quality of the Banks directly affects the interest income. Those assets that are standard in terms of the periodic payment of interest and principal repayments help the Banks to recognize the revenues promptly. This will directly contribute to the net interest income of the Banks which is the primary source of their profits. By definition, Non-Performing Assets are those assets on which the interest income and the principal repayment elements are not happening and hence the interest income would suffer.
- **Increased magnitude of provisioning:** the Banks not only suffer from the non receipt of the expected interest income on their assets on the incidence of Non Performing Assets. They will also have to make additional provisioning expecting the loss of the assets that have taken the form of Non-Performing Assets. When an asset becomes a Non-Performing Asset, it is almost always likely that some part of the principal will be impaired and the Banks will only be able to collect only a fraction of what would have been lent on such accounts.
- **Diminished ability to lend in future:** the cash flows into the Banks that have suffered from higher incidences of Non-Performing Assets would deplete due to non-receipt of capital repayments inherent in the NPAs. Hence, the Banks would not be able to take up the normally planned lending exercises, leading to a general fall in the future cash flows of the Bank, which might lead to a fall in the overall value of the enterprise.
- **Increased cost of funds:** Banks with higher incidence of Non-Performance would suffer in terms of credit rating. The deteriorated credit ratings lead to higher cost of funds for the Bank,

when it attempts to raise the funds from the market to match its cash flows. This will further impair the Banks net-interest income and consequently, the immediate and medium-term profitability of the Bank suffers in comparison with those Banks that have better asset quality structures.

- **Fall in the morale of personnel:** with regards to the personnel that man the credit appraisal and sanctioning of the loan applications within the Banks, there would be a fall in the level of confidence in the aftermath of serious episodes of NPAs. This might lead to high levels of conservatism in processing the loan applications, which might ironically lead to loss of high-quality borrowers.
- **Loss of time and efforts in recovery processes:** NPAs are not easy to recover by liquidating the collateral offered by the defaulting borrowers. Until recently, the Indian legal system offered a lot of leeway for the defaulting borrowers to stall the process of disposing the collateral to recover the NPAs. Even in the new regime of Insolvency and Bankruptcy mechanism called the IBC, which is supposed to hasten the process of bad loan recoveries, it has been seen that the Bankers have not been able to fully hasten the process of recovering bad loans.

Results and Analysis

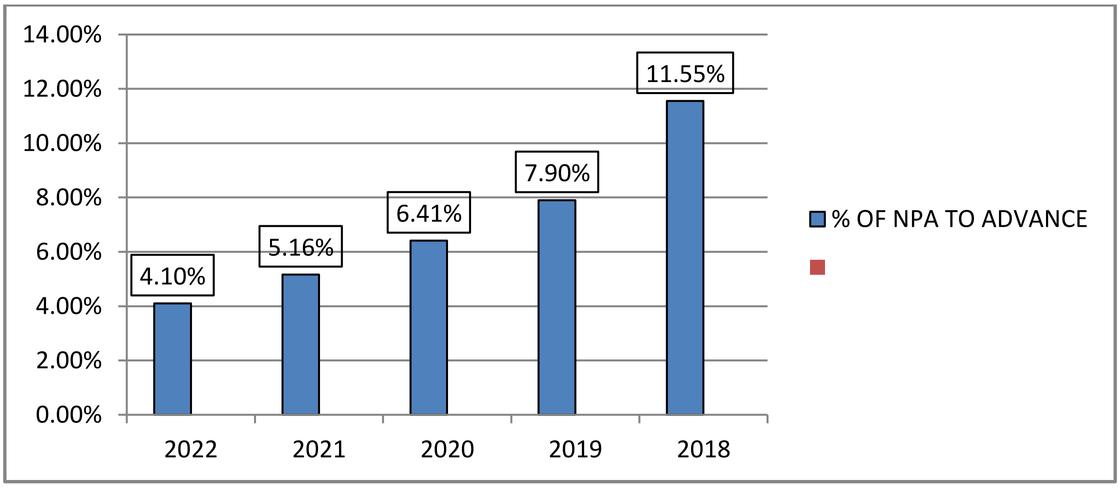
The Data collected from the sources, for Banks selected for the purpose of the research. The same has been presented in the tables below

Table 1: Details of NPA and Advances of SBI

Year	Advances	NPA	% of NPA to Advance Ratio
2022	2733966.59	112023.00	4.10%
2021	2449497.79	126389.02	5.16%
2020	2325289.56	149091.85	6.41%
2019	2185876.92	172753.60	7.90%
2018	1934880.19	223427.46	11.55%

Source: Money Control.Com

Table 1 depicts that total advances of SBI has increase from 2018 to 2022. It has increased by up to 50%. However at the same time NPA has decreased gradually with the increase of advances. One of the reasons for the decrease in the ratio of NPAs is that the lending is linked to productive investment and the recovery of credit is linked to product scale. In public sector banks the borrowers are mainly farmers and small scale industries owner whose financial condition are generally weak. Sometimes the pressure of BIFR and government to grant Loan to sick industries is also there with Public Sector Banks may cause to have increased Non Performing Assets. Another reason for decreasingCNPAs is the proper framework for lending policy and making lending to profitable sector by banks. There are many other causes such as good credit management like effective credit recovery mechanism, professionalism in the work force, time lag between sanctions and disbursement of loan, realistic repayment schedule, utilization of loans for mentioned purpose by user, timely communication to the borrowers regarding their due date, strong legal mechanism, and waive-off policy of loan by government.



Legal Framework for Recovery of NPAs

The Union government, in consultation with the expert committees that were constituted to enhance the efficiency of the financial sector and the RBI, has designed and developed various legal mechanisms to help Banks and financial institutions to deal with the recovery process of the NPAs. The most prominent of such mechanisms are enumerated below. These mechanisms are in addition to the normal recourse to a competent civil court, which is available to all creditors.

- **Lok Adalats:** The Lok Adalats represent a form of mass mechanism to deal with the recoveries of outstanding dues to the Banks. The mechanism of Lok Adalats has been created under the aegis of the National Legal Services Act, 1987. They deal with NPAs that fall under doubtful orloss categories. The sums that are covered by the cases on the Lok Adalat platform are ₹ 10 lakhs or less. Those cases in regards to which legal suits have been already filed also can be settled on this platform
- **The Debt Recovery Tribunal (DRT):** The DRT structure is a dedicated mechanism that has been created for recovering the outstanding loans that are overdue to Banks and financial institutions. The structure of the DRTs was created under the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. The tribunal is vested with the powers of a District Court. It is empowered with the same structure as that of a District court in respect of issuing of summons, summoning of witnesses, calling for evidence and hearing the arguments, finally leading to a binding judgement.
- **Securitisation and Reconstruction of Finacial Assets and Enforcement of Security Interest (SARFAESI ACT):** The Narasimham Committees I and II, as well as the Andhyarujina Committee, recommended the enactment of an exclusive legislation for securitization and the consequent empowering of the financial institutions to gain possession of the securities that formed the basis of advances granted by them and to dispose them without an intervention of the courts. This is quite critical to the preservation and recovery of the value of the securities that otherwise deteriorate in their values due to lapse of long durations of time under unproductive status.
- **Insolvency and Bankruptcy Code (IBC):** The Insolvency and Bankruptcy Code was enacted by the Indian Parliament in November 2016. It is an all-encompassing legislation that is intended to hasten the process of recoveries of bad debts of Banks by overcoming the intrinsic delays that were inherent in the pre-IBC regime. The IBC helps the creditors to initiate the recovery process in a comprehensive manner and within a short span of time. An application will have to be made before the National Company Law Tribunal NCLT of the relevant jurisdiction.

Conclusion

A defining feature of the composition of the NPAs in the Indian banking sector has been that the large corporate loans have been the primary culprit to the explosion that has been witnessed in this regard. The major industrial sectors like steel, power, and airlines have contributed the most to the problem of NPAs in the Indian banking sector. The general slowdown in the Indian economy has hurt the medium, small and micro enterprises, leading to a cascading effect of the problem of NPAs. The problem of NPAs in the agriculture sector and the micro enterprises appears to have not changed much over the study period. The problems of the farming sector borrowers continue to remain unaddressed with no major change in the scenario. Un-remunerative prices, input-cost inflation, lack of storage and access to remunerative markets continue to act as major impediments for the farmers to attain reasonable returns on a consistent basis. Of late, the problem of NPAs for the Indian banking sector appears to be witnessing some resolution. Some of the big-ticket loans to steel and power sector have been settled with the IBC framework yielding some positive results. However, the problem of large delinquencies from the telecom sector appears to haunt the Indian banking sector for some more time into the future. There has not been much of a change in the magnitude and structural dynamics of the incidence of the NPAs in the agriculture and allied activities. This sector has suffered more recently due to the lack of remunerative prices for the farm outputs. The policy-makers need to focus on preventing the problem of bad loans in the big-ticket lending with appropriate mechanisms for appraisal and monitoring. The borrowers from the MSME sector and the agriculture sector need more support and handholding to help them remain sustainable and viable.

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