

A STUDY ON NPA OF STATE BANK OF INDIA AND ASSOCIATE BANKS

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ABSTRACT

Banking sector is the backbone of other all the industries. The aim of this paper is to study on NPA of State Bank of India and Associate Banks. NPA is a major issue for all public banks and its effective solution is the need of the hour. This study of 4 years (2014 to 2017), tries to analyze the net non-performing asset (NNPA) figures of SBI and Associate Banks. The analysis has done regarding NPA of SBI public sector bank and Associate Banks during the period of 2013-14 to 2016-17. The aim of this paper is to assess any deviation the creation of NNPA between different banks during the research period. The term NPAs is concerned with the credit division of a bank. Thus, the term NPA can be explained as those assets of the bank that are not contributing towards generation of revenue for the banks.

Keywords: NPA, NNPA, Substandard Assets, Doubtful Assets, Loss asset.

Introduction

NPA= Non-Performing Assets. The term NPAs is concerned with the credit division of a bank. Thus, the term NPA can be explained as those assets of the bank that are not contributing towards generation of revenue for the banks. NPA describes the current financial performance of banking sector in any country. If the NPA is high, the performance of banks is considered unsatisfactory.

According to RBI, Non performing Assets (NPA) can be described as:

- “An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
- 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 bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
 - The installment of principal or interest thereon remains overdue for two crop season for short duration crops,
 - The installment of principal or interest thereon 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”.

According to RBI “the amount due to the bank under any credit facility is considered ‘overdue’ if it is not paid on the due date fixed by the bank”. NPA can be explained as a credit assistance in which the interest and / or the principal amount remains ‘unpaid’ for a particular time-period. Net Non-Performing Assets (NNPA) According to RBI: “Gross non-performing assets – (Balance in interest suspense account + Deposit Insurance and Credit Guarantee Corporation/Export Credit Guarantee Corporation claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held)”.

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State Bank of India

SBI is a statutory body and part of the public sector banking and financial services market in the country. The bank is headquartered in Mumbai, Maharashtra and secured 216th rank in the Fortune Global 500 list of the world's largest corporations released in 2018. SBI has 23% market share in assets which makes it the biggest bank in India, in addition to 1/4th of the total debt and deposit market.

Banks in India follow the financial year from April to March and hence their annual financial information is compiled accordingly, but Reserve Bank of India follows the July to June financial year, because Reserve Bank of India as an observer and regulator looks and then analyzes and prepares statutory documents which is known as the annual report.

The different types of loans available for bank's customers and its outstanding criteria are as follows: Term Loans (90 Days overdue), Overdraft/Cash Credit (90 Days), Crop Loans {Long term (due for 1 crop season) and Short term (due for 2 crop season)}, Derivative transactions (Unpaid for 90 days), Discounting/purchase of bills (outstanding for 90 days), Securitization transactions (Unpaid for 90 days).

Source: <http://www.iibf.org.in>

Asset Classification

Banks categorize their NPAs into three categories, on the basis of the time period for which the asset is considered NPA:

- **Substandard Assets**

An asset will be considered substandard if it is NPA for upto 12 months. This came into force from March 31, 2005. These assets will have clearly mentioned credit discrepancies that can endanger the liquidity of the banks and the banks can sustain some losses if these errors are not sorted timely. The present value of the property attached is not sufficient enough for the bank to cover its dues.

Provision Requirement

15% of the total net investment in the lease and finance charges a disproportionate share of the finance income of the component and extra 10% for unsecured lease exposure which is 25% of the whole amount.

- **Doubtful Assets**

A Doubtful Asset is one if it stays in the substandard category for a time- period of upto One year from March 31, 2005. Credit will be considered Doubtful Asset if it has conformity to all the features of substandard assets and the said vulnerabilities create complete collection or liquidation that are based on situations and values – highly suspicious and inappropriate.

Provision Requirement

This means that the total credit amount is not secured by the recoverable price of the attached property. Extra provisions on the undisclosed part of unaccounted revenue are as follows:- The duration for which advances are in doubtful category and the provision is 25% provision for one year, 40% provision for one to three years, three 100% over the year.

- **Loss Assets**

A loss asset can be described as one where definite loss of funds is marked by the lending institution itself or internal/external auditors or RBI oversight, but the value is not fully realized i.e. such property will remain unqualified and of such low value that it is not warranted to continue like a bankable asset, though some can be of disposable or recoverable amount. The banks have not written it off completely and it might realize some value later.

Provision Requirement

The total credited amount against the attached property or the unaccounted amount of the net income share of the finance charge component.

Causes of NPA

In previous articles, several authors have explored several reasons for NPA. Some of them are: willful default, poor follow-up and supervision, lack of entrepreneurial skills, non- cooperation with banks, inability to manage borrowers, weak credit appraisal system industrial problem, credit management and inspection, follow-up action, market slowdown and natural disasters and other uncertainties are appropriate.

Literature under Review

NPA is an important challenge in the current banking scenario and many researchers have tried to understand the causes the causes of NPAs and it's on the banking sector and has also provided solutions towards resolving the problem of NPAs. This paper describes in a summarized form the approaches mentioned in various research studies from time to time by examining them in detail.

Ahmed, JaynalUd-din, (2011): His study concludes that the income and proficiency of banks are hindered by high levels of NPAs and reducing the NPAs is becoming the single largest challenge in domestic banking sector.

Joseph, A.L., (2014): This paper studies the trends and internal/external factors involved in growth of NPAs of banks along with some measures for reducing the menace of NPAs.

Satpal, (2014): This study attempts to describe the definition of NPAs and the issues that causes the rise of NPA and its impact on the Indian economy.

Gap in Research

As per there view of literature, it was deduced that no research was undertaken during the time-period of 2014 to 2017 (before merger of SBI with its associates) with respect to the objectives mentioned in the proposed study. Hence the current position of NNPA of banks was not reflected by the researcher.

Objective of the Study

The aim of this research is to derive if there is any deviation in the emergence of NPAs of different banks during the study period.

Methodology

- **Sample Size:** State Bank of India and its five Associate banks namely State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore
- **Period of Study:** From 2013-14 to 2016-17.
- **Collection of Data:** The present paper is based on secondary data which is arranged from annual reports and official website.

Hypothesis

In order to test the significant difference in the NNPA of SBI and its Associates, 'Single Factor ANOVA' will be done. The Hypothesis is as follows:

H₀: There is no significant difference in the NNPA in the selected banks in India.

H₁: There is significant difference in the NNPA in the selected banks in the India.

Limitations of the Study

This study deals only with the NNPA published by Reserve Bank of India of State Bank of India and Associate Banks (before the merger). It does not investigate NPA management nor seek to ascertain the cause of these factors.

Analysis and Interpretation

The data related to NNPA which is collected from RBI reports have been tested using ANOVA as shown below:

Table 1: NNPA values of State Bank of India and its Associates

(Amount in Crore)

Year	State Bank of India	State Bank of Bikaner and Jaipur	State Bank of Hyderabad	State Bank of Mysore	State Bank of Patiala	State Bank of Travancore
2014	31096.07	1770.85	2984.89	1630.27	2404.52	1928.5
2015	27590.58	1769.17	2348.51	1121.58	3049.23	1398.66
2016	55807.02	2005.19	3743.16	2257.18	3268.16	1813.67
2017	58277.38	6829.7	10193.83	5824.34	10840.33	4966.64
Total	172771.05	12374.91	19270.39	10833.37	19562.24	10107.47
Mean	43192.7625	3093.7275	4817.5975	2708.3425	4890.56	2526.8675
S.D.	16087.50287	2493.114642	3629.210277	2128.617984	3983.41712	1642.35972
C.V. (%)	37.24582994	80.58610988	75.33236799	78.59485956	81.45114507	64.99587812

Source: dbie.rbi.org.in

Table 2: NNPA values of State Bank of India and its Associates

(Amount in Crore)

Year	State Bank of India (X ₁)	(X ₁) ²	State Bank of Bikaner and Jaipur (X ₂)	(X ₂) ²	State Bank of Hyderabad (X ₃)	(X ₃) ²
2014	31096.07	966965569.4	1770.85	3135909.723	2984.89	8909568.312
2015	27590.58	761240104.7	1769.17	3129962.489	2348.51	5515499.22
2016	55807.02	3114423481	2005.19	4020786.936	3743.16	14011246.79
2017	58277.38	3396253020	6829.7	46644802.09	10193.83	103914170.1
Total	172771.05	8238882175	12374.91	56931461.24	19270.39	132350484.4

Table 3: NNPA values of State Bank of India and its Associates

(Amount in Crore)

Year	State Bank of Mysore (X ₄)	(X ₄) ²	State Bank of Patiala (X ₅)	(X ₅) ²	State Bank of Travancore (X ₆)	(X ₆) ²
2014	1630.27	2657780.273	2404.52	5781716.43	1928.5	3719112.25
2015	1121.58	1257941.696	3049.23	9297803.593	1398.66	1956249.796
2016	2257.18	5094861.552	3268.16	10680869.79	1813.67	3289398.869
2017	5824.34	33922936.44	10840.33	117512754.5	4966.64	24667512.89
Total	10833.37	42933519.96	19562.24	143273144.3	10107.47	33632273.8

Where: K=6, N=24, K-1=5, N-K=18, N-1=23, n₁₌₄

Correction factor of Squares (C.F.) = T²/N

C.F.=59985527192/24 = 2499396966

Total sum of squares (SST)

SST= X₁² + X₂² + X₃² + X₄² + X₅² + X₆² - C.F.

SST = 8648003059 - 2499396966= 6148606093

Sum of squares between columns (SSC)

SSC= (X₁)²/n₁ + (X₂)²/n₂ + (X₃)²/n₃ + (X₄)²/n₄ + (X₅)²/n₅ + (X₆)²/n₆ - C.F.

SSC = 7744131534 - 2499396966 = 5244734568

Sum of squares within or due to error (SSE)

SSE= SST-SSC

SSE = 6148606093 - 5244734568= 903871525

MSC= SSC/ (K-1)

MSC = 5244734568/ (6-1) =1048946914

MSE= SSE/ (N-K)

MSE = 903871525/ (24-6) = 50215084.72

F= MSC/MSE

F = 1048946914/50215084.72 = 20.88907984

Table: 4: The Test Results are given in the following ANOVA Table

ANOVA Table				
Source of Variation	Sum of Squares	Degrees of freedom	Mean Square Deviation	F
Between Samples	SSC = 5244734568	(K-1)= 6-1=5	MSC= 1048946914	F=MSC/MSE =20.88907984
Within Samples	SSE= 903871525	(N-K)= 24-6=18	MSE= 50215084.72	
Total	SST= 6148606093	(N-1)= 24-1=23		

H₀: $\mu_1 = \mu_2 = \mu_3 = \mu_4 = \mu_5 = \mu_6$

H₁: All μ are not equal

=0.5: critical value of F (5, 18, 0.05) = 2.77

Calculated F (20.88907984) > Critical value (2.77)

H₀ rejected, difference is significant.

The table above, based on the F ratio and significance value, shows that there is a significant difference in NNPA between the selected banks under study. Therefore, H₀ is rejected and H₁ accepted.

Findings and Suggestion

Following are the important findings regarding NPAs:

- Significant difference in NNPA between the selected banks under study was found.
- It is observed that NNPA of selected banks under the study have been increasing year after year.

Following are the important suggestion regarding NPAs

- Occupy the secured assets of the borrower.
- Securities should be sold or leased.
- Arrangements should be made for recovery.
- The provisions of SARFAESI Act, 2002 should be strictly enforced to deal with all outstanding dues of more than INR 1 lakh.
- The Compromise settlement scheme should be used to recover NPAs up to 10 crores.
- While lending, the financial condition of the borrower should be studied thoroughly.

Conclusion

The aim of this study was to assess if there is any deviation in the emergence of NPAs of different banks during the study period. The study shows that there is significant difference among banks' NNPA at the level of significance of 5%. Therefore, one can safely conclude that banks have not done the same as NNPA in recent years despite their actions.

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