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

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ABSTRACT

The Indian banking industry is essential to the growth of the country's economy, and its expansion is largely dependent on nonperforming assets (NPAs). NPAs are a vital instrument for assessing the financial health of various banks. A loan and an NPA are both advance for which the principal and interest payments are 90 days past due. This article's goal is an attempt to Analyze the developments of non-performing assets (NPAs) in the banking industry, paying specific attention to the State Bank of India (SBI) over the years 2012–2022. The information that was used to write this article was compiled from secondary sources.

Keywords: *Non-Performing Assets (NPA), Banking Sector, State Bank of India (SBI), Financial Position, Economic Development.*

Introduction

Every nation's economy relies on banking, which is regarded as its lifeblood. Credit is created and distributed by banks. The formal (organized) and informal (unorganized) banking systems in India are the two primary divisions of the banking system. Since banks serve a significant function as an intermediary between the flow of money from those who save a portion of their income and those who invest in productive assets, their liabilities constitute a part of the money supply. A robust banking system can achieve the goal of bolstering the actual economy and ensuring its wholesome and orderly expansion.

Non-Performing Assets (NPAs)

Non-performing assets (NPAs) play a significant role in how banks operate. Loans that are in default or are behind on planned principle or interest payments are classified as non-performing assets, or NPAs, on the accounts of financial institutions. These bank assets are the ones that don't generate any income. When a borrower defaults on a loan for more than 90 days, the debt is typically categorized as non-performing. The normal time frame for debt to be classified as a non-performing asset is 90 days.

Types of Non-Performing Assets

- **Standard Assets:** A standard asset is one that does not reveal any issues and carries no additional risk relative to the business.
- **Sub-Standard Assets:** An asset that has been non-performing for less than a year is considered a sub-standard asset.

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- **Doubtful Assets:** An asset that has been non-paying for more than a year is considered doubtful.
- **Loss Assets:** A loss asset is a financial asset in which a loss has been discovered by the bank, an internal or external auditor, or central bank inspectors. Even after three years, the money has not yet been fully or partially wiped off.

Types of NPA

- Gross NPA
- Net NPA

Gross NPA is the total of all loan assets that, as of the balance sheet date, have been classified as NPAs by the RBI. Gross NPA is a good indicator of the caliber of bank loans. It consists of all nonstandard assets, such as loss, dubious, and substandard assets. It can be determined using the following ratio:

Gross NPA Ratio Formula: (Gross NPA/Total Advances) X 100

Net NPA are those types of NPAs from which the bank has subtracted the NPA provision. The net NPA reveals the true cost to banks. Indian banks' Because there are so many NPAs on balance sheets and it takes so long to recover and write off loans, the provisions that banks must make against NPAs in accordance with central bank requirements are quite large.

Because of this, there is a significant disparity between gross and net NPA. This formula can be used to calculate it:

Net NPA Ratio Formula: (Net NPA/Total Advances) X 100

Scope of the Study

In this study, non-performing assets in the public banking sector are analyzed, specifically with the State Bank of India in mind.

Objectives of Study

- To examine SBI's NPA trends from 2011 to 2021.
- To determine the cause of SBI's highest NPA level.
- To offer commentary on the rise of NPAs.

Literature Review

In her article "Comparative analysis of NPAs in selected Public Sector Banks and Private Sector Banks in India," Sagarika Mohanty (June 2021) mentioned the connection determines the relationship between NPA and the important criteria of the chosen banks and the effect of NPA on the Net profit and Return on Assets (ROA) of the chosen banks.

Five public banks and five private banks were used to investigate NPAs in Girnara Mona Rameshbhai's (JULY 2020) research paper, "Comparative Study of NPAs in Public Sector Banks and Private Sector Banks." This work assessed different NPA ratios using secondary data. In comparison to private sector banks, it has been discovered that NPAs are higher in public sector banks. In comparison to private sector banks, the amount of gross and net NPAs is higher in public sector banks.

Deevanshu Yash Goyal, MD; Rishabh Adey. Lata Dhruv and Nizam Siddiqui (2020) discovered that NPAs deplete banks' capital and reduce their financial clout. In comparison to private sector banks, there are higher NPA in public sector banks. The management of non-performing assets (NPA) by financial institutions and banks has to be more effective and efficient.

In their 2019 research paper titled "Non-Performing Assets: A Comparative Study of SBI & HDFC Bank," Mr. Santosh Shah and Mr. Dhruv Sharma examined the effects of non-performing assets (NPA), the causes of assets becoming NPAs, and contrasted the NPA patterns of SBI and HDFC during the previous years. This essay seeks to identify the key elements influencing bank NPAs.

In their research paper titled "A Comparative Analysis of NPAs of Public and Private Sector Banks in India - December 2019," HaraniB and Subramanyam Mutyala An ongoing conflict

The analysis of NPAs and loan assets of banks serving the public and private sectors was done in this study. Additionally, it looked into the gross NPAs, gross advances, and gross NPAs ratio of Indian banks in the public and private sectors. NPAs, which are a concern for public sector banks, have gotten worse as a result of non-priority sector loans.

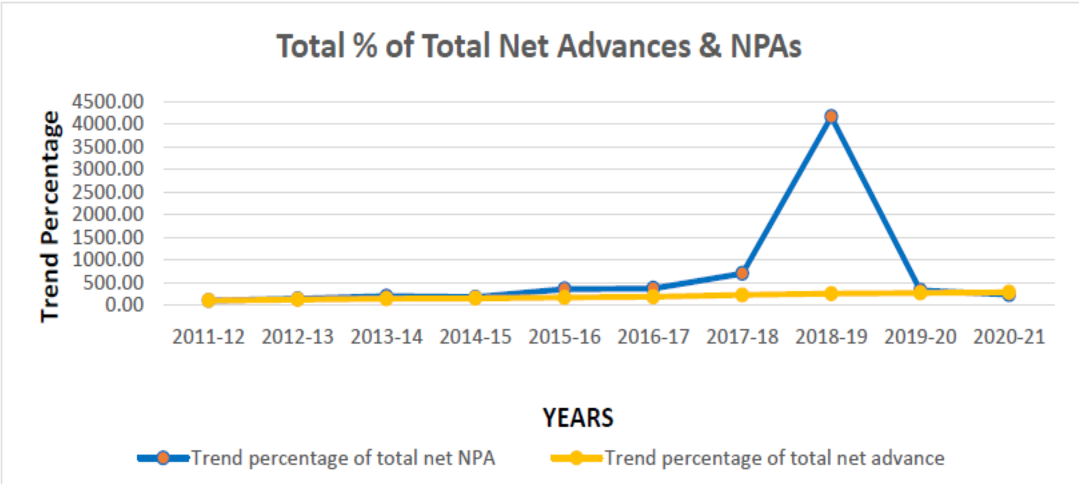
Methodology

The secondary sources used to compile the data for this paper are entirely descriptive in nature. The study's ten-year time frame runs from 2011–12 to 2020–21. The information was gathered from Public Sector Bank Annual Reports and Accounts, as well as publications from Doctoral Dissertations on Banking, a variety of journals on banking, economics, and finance, publications, websites, and newspapers like Financial Express, Times of India, and Economic Times.

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



Analysis and Interpretation

The trend % of Net NPA and Net Advance in Figure 1 is shown in the above table. The percentage of total Net NPA grew year over year starting in 2011–12 and continued through 2013–14. The percentage of total Net NPA then decreased from 196.58% to 174.42% in 2014–15.

Again, it started to rise in the years 2015–16, and it peaked in the years 2018–19. It decreased from 4165.58% to 327.91% and 232.70% over the following two years (2019–20 & 2020–21). As time went on, the trend percentage of net advances grew.

Analysis and Interpretation

The State Bank of India's total net NPA to total net advance (NPA ratio) is projected in Table 1 above. It demonstrates that the Net NPA ratio was 1.82% in 2011–2012, continued to rise to 2.1% and 2.57% in 2012–2013, and then slightly decreased from 2.57% to 2.12% in 2014–15. Then, in 2015–16, it began to rise once more by 1.69%, and in 2016–17, the Net NPA ratio slightly decreased to 3.71%. The Net NPA ratio peaked in the year 2017–18 at 5.73%, and after that it began to decline, dropping to 3.01% in 2018–2019, 2.23% in 2019–2020, and 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 NP	A 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

Analysis and Interpretation

The State Bank of India's total gross NPA to total gross advances ratio is displayed in the table above. It demonstrates that the Gross NPA ratio in 2011–12 was 4.75%, and that it increased to 5% and 4.95% in 2012–13 and 2013–14 before slightly declining to 4.25% in 2014–15. Then, in 2015–16, it began to rise once more by 2.25%, and in 2016–17, the Gross NPA ratio increased to 6.9%. Gross NPA ratio peaked in the year 2017–18 at 10.91%, then began to decline in 2018, dropping to 7.53% in 2018–2019, 6.15% in 2019–2020, and 4.98% in 2020–2021.

Discussions & Findings

The financial system is, as everyone is aware, the foundation of the economy. NPAs have a significant impact on the financial system, and both public sector and private sector institutions are attempting to deal with them. The non-performing assets (NPA) of Indian banks have dramatically expanded during the previous ten years. Public sector banks in India are more severely impacted by non-performing assets than private sector banks.

State Bank of India has the biggest NPA among the main public sector banks, with about INR 1.21 lakh crore. It is followed by Punjab National Bank, Bank of India, Bank of Baroda, Canara Bank, and Union Bank of India.

The State Bank of India has the largest percentage of non-performing loans (NPAs) since it gave out numerous loans in all economic sectors but was unable to recoup them because: It is one of the most reputable banks in India and has the easiest terms and conditions for issuing loans and advances when compared to other banks. It is one of the largest and most well-known banks in India, with a network of 22000 branches scattered throughout the country and abroad.

In the contemporary financial market, SBI holds a quarter of all loans and savings. It offers loans in every area of the economy, including personal loans, house loans, school loans, vehicle loans, loans secured by property, and MSME loans (Micro Small Medium Enterprise)

When governments change, they occasionally discharge loans in accordance with political agendas.

There are a lot of small farmers and company owners, and occasionally people purposefully default on their loan payments to benefit from the aforementioned political strategies. As a result, NPA keeps rising, which has a negative impact on the economy.

As we examine the trends shown in the tables and graphs above for the Net NPA Ratio and Gross NPA Ratio, we highlight the following points.

- From the years 2011–12 to 2020–21, the trend percentage of gross advances showed a steady upward trend, rising from 100 to 303.84 percent.
- The trend percentage of gross non-performing assets (NPA) followed an upward tendency until 2013–2014, but it fell by 12.3% in 2014–15. Later, it rose and peaked in the following year.
- The value of 2017–18, or 563.12, began to decline and fell to 318.5 in 2020–21.
- The State Bank of India's Total Gross NPA to Gross Advance Ratio reached its highest level of 10.91 in the 2017–18 fiscal year. Later, between 2017–18 and 2020–21, it steadily dropped.

- The trend percentage of Net NPA had an upward trend until 2013–2014, then fell by 22.16% in 2014–15. It subsequently climbed and reached its greatest level in the year 2018–19, or 4165.58, before beginning to decline and reaching 232.7 in 2020–21.

From the years 2011–12 to 2020–21, the trend percentage of net advances showed a consistent upward trend, rising from 100% to 282.34%.

The State Bank of India's Total Net NPA to Net Advance Ratio reached its highest level of 5.73 in the 2017–18 fiscal year. It then continued to decline from 2017–18 through 2020–21.

According to the aforementioned data, we discovered that both Net and Gross advances kept growing over time. Although advances were higher each year than the year before, the Net and Gross NPA ratios decreased twice during the past ten years. This occurred mostly as a result of SBI's purposeful increase in the provision coverage ratio. In the 2019–20 fiscal year, profits increased by three times, and the SBI was able to recover some NPAs thanks to a decrease in its marginal cost of lending rate.

Suggestions

- It is recommended that SBI should limit its provisions for NPA by adopting some steps for loan recovery.
- Banks must exercise caution while conducting credit evaluations and must take action both before and after sanctioning loans in order to prevent slippages and the accumulation of NPA standard assets.
- Since SBI has underreported its NPAs, according to the RBI's 2019 report, the bank should perform a proper internal audit under stringent supervision.
- When announcing any form of advantage in favor of the general populace, the government should take the nation's economic situation into account.

Conclusion

The country's economy is most significantly impacted by the banking industry. As a result, preserving asset quality in banks is crucial for their growth. NPAs are consistently rising year over year, notably in public sector banks, particularly SBI. One of the most dangerous problems facing the banking industry in the economy is NPAs. As NPAs represent the amount that is still unrecovered and, thus, unproductive, they have an impact on the bank's profitability in the long run. No bank can maintain an NPA ratio of 0%, but by using an effective monetary system and management procedures, banks can lower their NPA ratio. Therefore, this study advises the relevant bank officials to take the appropriate actions to reduce the NPA and enhance recovery.

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