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## NON-PERFORMING ASSETS: A CASE STUDY OF STATE BANK OF INDIA

<sup>1</sup>Dr. Rekha Patil and <sup>2</sup>Ravikumar D. Awanti

<sup>1</sup>Associate Professor and Research guide, Department of Management,  
at Regional Centre: VTURO, KALABURAGI .

<sup>2</sup>Research Scholars, Assistant Professor, Faculty of Business Studies,  
Sharnbasva University, Kalaburagi .

### ABSTRACT:

Banks plays an important role in the economic development of any country. The banking sector is undefended to various risk, such as credit risk, liquidity risk, market risk, interest risk and management risk. Aside from these risks the very important risk is loan recovery. The sound financial position of a bank depends upon its level of Non-performing assets (NPAs). Declined NPAs generally states the impression that banks have Buildup strong credit appraisal processes over the years and Increase in NPAs requires the necessary provisions, which bring down the overall profitability of banks.

The Indian banking sector is facing a serious Challenge of NPA. The extend of NPA is comparatively higher in public sectors banks. To enhance the efficiency and profitability of banks the NPA need to be reduced and controlled.



**KEYWORDS:** NPA, Public Sector Banks.

### INTRODUCTION :

The banking system in India comprises commercial and cooperative banks, of which the former accounts for more than 90 per cent of banking system's assets. Besides a few foreign and Indian private banks, the commercial banks comprise nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority

holding being with State Bank of India). These banks, along with regional rural banks, constitute the public sector (state owned) banking system in India. The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management.

Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc.

While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason being mounting nonperforming assets (NPAs) and nowadays these are one of the major concerns for banks in India.

Non-performing Assets are threatening the stability and demolishing bank's profitability through a loss of interest income, write-off of the principal loan

amount itself. RBI issued guidelines in 1993 based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs be treated as a national priority because the level of NPA act as an indicator showing the bankers credit risks and efficiency of allocation of resource. The financial reforms helped largely to clean NPA in the Indian banking industry. The earning capacity and profitability of the bank are highly affected due to this NPA.

Non-Performing Assets are also called as Non-Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing. A high level of nonperforming assets, compared to similar lenders, may be a sign of problems.

### **OBJECTIVES OF THE STUDY:**

1. To evaluate the gross NPAs and net NPAs of SBI.
2. To explore the impact of NPAs on profitability of the SBI.
3. To propose measures to manage NPAs in SBI effectively.

### **REVIEW OF LITERATURE:**

1. Kajal Chaudhary and Monika Sharma (2011), they studied about the performance of private and public sector banks and how they manage their NPA. They have taken few of the private and public sector banks under the study. The study has shown Performance level in each sector. The study has also given some recommendations regarding how the bank should improve their performance and also managing NPA.
2. DR. Partap Singh (2012), in this paper attempts have been made to analyze trends in NPAs, Causes and Impact of NPAs. Nonperforming assets indicate the credit risk of the banks. This paper deals with the comparative analysis of advances and non performing assets in public and private sector banks in the light of mounting competitive scenario in the banking sector. The study shows improvement in the management of NPA.
3. G.V.Bhavani Prasad, D.Veena (2011), NPAs Reduction Strategies for Commercial Banks in India. This paper also deals with the concept of NPA, how an account turns into NPA and some measures to manage NPA.
4. Management of Non-Performing Assets in Indian Public Sector Banks with special reference to Jharkhand: This study was basically confined to management of NPA in Public sector banks in Jharkhand. The study outlines the reasons for NPAs through figures and graphs and few recommendations to improve NPA.
5. Dr. Mohan Kumar, Govind Singh (2012) Mounting NPAs in Indian Commercial Banks: Causes and Consequences of NPAs in Banks using tables and few suggestions for improvement of NPA level.

### **RESEARCH METHODOLOGY:**

The study is planned to be carried out with the help of secondary data for the purpose to and understand the NPA level of private and public sector Banks.

#### **Data Collection:**

The present study is mainly based on secondary data. The required data were collected from the annual reports of the Banks through their websites.

#### **Sources of Data:**

Secondary data was collected from the reports, articles, journals, documents, printed literatures, certain web sites and other online data bases etc.

**DATA ANALYSIS AND INTERPRETATION:****1. NPAS IN RELATION TO ADVANCES**

The performance of SBI in Gross NPAs and NPAs has been depicted as below:

(Rs. In Millions)

Year	Gross NPA		Net NPA	
	Rs.	Percentage to Gross Advances	Rs.	Percentage to Gross Advances
2008-09	128373	2.37	74243	1.37
2009-10	157140	2.48	96774	1.53
2010-11	195349	2.58	108702	1.44
2011-12	253263	2.91	123469	1.42
2012-13	396765	3.79	158189	1.51
2013-14	511894	4.23	219565	1.81
2014-15	616054	4.73	310961	2.39
2015-16	567253	3.87	275906	1.88
2016-17	981728	6.25	558070	3.55
2017-18	1123430	5.77	582774	3.01

A close scrutiny of the Table uncovers the fact that SBI has been spectacularly managing the gross NPAs segments. An international standard of gross NPAs shows that it would be 2 to 3 per cent. The gross NPAs which stood at 2.37 per cent in the year 2008-09 gradually increased to 4.73 per cent in the year 2015-16 and afterwards it was gradually slipped down to as 3.87 per cent in 2015-16.

A close evaluation of the table states that SBI has been spectacularly managing the Net NPAs. An international standard of Net NPAs shows that it would be below 2.5 percent. The Net NPAs which stood at 1.37 percent in the year 2008-09 gradually increased to 3.55 percent in the year 2016-17 and afterwards it was gradually fall down to as 3.01 percent in 2017-18.

**2. NPA IN RELATION TO TOTAL ASSETS AND TOTAL ADVANCES**

NPAs as percentage to total assets and total advances have been investigated in Table.

**Table: NPA as Percentage to Total Assets and Advances**

Year	NPAs as percentage of Total Assets	NPAs as percentage of Total Advances
2008-09	1.33	2.37
2009-10	1.49	2.48
2010-11	1.60	2.58
2011-12	1.90	2.91
2012-13	2.53	3.79
2013-14	2.86	4.23
2014-15	3.01	4.73
2015-16	2.41	3.87
2016-17	3.63	6.25
2017-18	3.25	5.77

It is note that NPAs as a rate to add up to resources increased from 1.33 during 2008-09 to 3.01 an all occasions high in the most recent year of the examination viz., 2008-09. The descending pattern suggests that it has freeze solidified assets in NPAs and has made accessible fluid assets into credits and speculation arrangement of SBI. Anyway after 2015 it was expanded as 3.01 percent 3.63 percent in years 2014-15 and 2016-17 separately. Concerning NPAs in connection to add up to advances; there

has been a huge and faltering rehabilitation from the pinnacle 1.33 percent in 2008-09 to a high 3.63 percent in 2016-17.

### 3. INFLUENCE OF SECTOR WISE NPAS ON GROSS NPAS AND NET NPAS:

#### Sector Wise Non Performing Assets

(Rs. In Crores)

Year	Priority sector		Public sector		Bank		Others		Total Amount
	Rs.	Percent	Rs.	Percent	Rs.	Percent	Rs.	Percent	
2011-12	250177	34.11	54707.32	7.46	180.37	0.02	428436.6	58.41	733501.29
2012-13	264313.9	30.10	54670.17	6.23	68.77	0.01	559156.1	63.67	878208.94
2013-14	280819.5	28.14	74172.45	7.43	99.99	0.01	642792.4	64.42	997884.34
2014-15	288952.4	27.07	99444.51	9.32	261.95	0.02	678592.6	63.58	1067251.46
2015-16	328551.5	27.38	144401.9	12.03	1473.75	0.12	725604.4	60.47	1200031.55
2016-17	341257.5	26.50	121630.6	9.45	1404.45	0.11	823349.2	63.94	1287641.75
2017-18	448359	27.40	161939.2	9.89	2845.2	0.17	1023464	62.54	1636607.4
Mean	314633	28.67	101566.593	8.83	905	0.07	697342.186	62.43	1114446.68
SD	67422.38	2.66	42880.236	1.94	1050.65	0.067	190510.189	2.20	296287

Source: RBI Report on trend and Progress of Banking in India, 2011-12 to 2017-18

Sector wise NPAs of SBI are given in the Table. The priority sector NPAs in 2011-12 to a low of Rs. 250177 crores in 2017-18 to a high of Rs.448359. As for public sector NPAs, it is obvious from the table that SBI consistent effort in the sizing down the NPAs to a considerable extent is evident. In other words the public sector NPAs fell from the peak of Rs.54670.17 crores (6.23 percent) in the year 2012-13 to Rs.161939.2 crores in 2017-18. As per Bank and Others sectors in to low of Rs. 68.77 crores and 428436.6 in 2012-13 and 2011-12 to high of Rs. 2845.2 and 1023464 crores in 2017-18 respectively.

#### 4. Sector-Wise NPAs for both Priority and Non- Priority Sector:

Year	Agriculture (%)	Industry (%)	Services (%)	Personal loans (%)
2011-12	8.92	4.12	2.94	2.92
2012-13	9.50	4.37	4.43	1.98
2013-14	8.11	3.87	5.18	1.31
2014-15	8.84	4.66	2.83	0.83
2015-16	7.82	9.75	2.74	0.72
2016-17	5.61	10.79	4.06	0.54
2017-18	11.06	17.77	5.62	1.22
Mean	8.55	7.90	3.97	1.36
SD	1.67	5.21	1.17	0.84

Source: RBI Report on trend and Progress of Banking in India, 2011-12 to 2017-18

The data are summarized in above table with Mean  $\pm$  SD. We didn't observed any significant change in altogether sector wise advances (such as Priority sector, Public sector Bank, Others and Total advances) among SBI bank. However, in sector-wise NPAs, services sector along with personal loans

sector was significantly higher in SBI bank. Though agriculture sector and industry sector was higher NPAs in compared to other sectors.

## CONCLUSION

The issue of NPAs could be a noteworthy obstacle and live threat looked by banking industry, because of it demolishes the sound budgetary state of the banks. Its correct time to require fitting and stringent measures to dispose of NPA issue. Banks should be versed in right decision of borrower/venture and in dissecting the accounts. The exhibitions of SBI banks don't appear to be proper as the extent of NPAs is expanding in SBI bank. SBI bank needs to give uncommon consideration on their successful working contrast with different banks. Along these lines, SBI banks need to productively to manage their NPAs with the end goal of increment their benefit.

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**Dr. Rekha Patil**

**Associate Professor and Research guide, Department of Management,  
at Regional Centre: VTURO, KALABURAGI .**