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RESEARCH ARTICLE

AN ANALYTICAL STUDY ON NPAS OF STATE BANK OF INDIA

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Abstract

Objectives: The main objective of this paper is to make an attempt to analytically study the basic reasons for increase in NPAs/analyze gross NPAs in SBI group and the measures taken so far and their impact.

Method: Data is collected for the Variables namely Net Profit Margin, Return on Equity and Return on Assets, Gross NPAs to Gross Advances, Net NPAs to Net Advances, Cost to Income and Provision Coverage Ratio. Secondary data is collected for a period of 5 years i.e. from 2014-15 financial year to 2018-2019 Financial Year. Statistical tool like percentage analysis is used to identify the reasons for increase in NPA's of State Bank of India.

Result: It was found in the study that, the major sectors contributed for the increase in NPAs in SBI are mid and Large corporates and not the priority sector. NPAs are increasing from the last five years as shown in the ratios calculated. This is due to change in the method of projecting NPAs and stringent norms by RBI.

Conclusion: The present paper analyzed and identified the reasons for increasing trend of NPAs in SBI group. SBI is in hope that it could see the development in coming years as they are expecting the resolutions for pending cases from the National Company Law Tribunal (NCLT).

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Introduction: -

Public banks in India had been facing the problem of stressed assets over the period of time in spite of many resolutions. Recently, Reserve Bank of India came with revised framework for the functioning of banks with respect to stressed assets. RBI has made some stringent norms for the treatment of bad loans. Now it is also planning to ease certain norms (for small and medium enterprises) without diluting the spirit with which it has initiated resolutions. SARFAESI - Securitisation, Reconstruction and Financial Assets and Enforcement of Security Interest Act 2002² was a significant step in the reforms in financial sector in India.

As per the reports of Standard and Poor, April 2018, India is in 55th place among the top 100 largest banks in the world in terms of total assets held.

Union cabinet in India has approved the merger of State Bank of India (SBI) with five of its associates in 2017 with an aim to reduce the cost to income ratio, to help Indian economy to rank higher in the global banking rate, to rationalize more resources etc.

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Most common reasons for NPAs among banks are wilful defaults, failure of the market, poor supervision and follow-up, poor legal framework, diversion of funds etc³. Few key performance ratios like Return on Assets, Return on Equity, Net Interest Margin, Cost to Income are compared in this paper for the analysis.

Literature Review:-

A key indicator of soundness of a financial system reflects in the quality of assets held by the banks and financial institutions. Non-performing assets (NPAs) are loans lent by a bank or a financial institution, and usually the borrower fails to replay or delays interest or principle payments. According to the RBI norms, principle amount or interest amount delayed beyond 90 days has to be identified as non-performing assets¹⁴. NPAs are grouped into sub-standard, doubtful and loss assets.

Non-performing assets were categorised based on the period for which the asset has remained non-performing and the realization of the dues:

Classification of assets - Source: www.rbi.org.in

1. Sub-standard Assets
2. Doubtful Assets
3. Loss Assets

Sub-standard Assets:

An asset which is not performing upto 2 years is called sub-standard asset. In this case, the net worth of the borrower is not sufficient to recover the dues. From 31-3-2005, period is reduced to less than 12 months.

Doubtful Assets:

Period for doubtful assets is more than two years, but from 31-3-2005, the period has been reset to more than 12 months.

Loss Assets:

Asset which cannot be recovered as classified as loss asset. These type of assets may fetch mere some salvage value.

Some of the important reasons for the increase in NPAs:

Banks do diversion of funds for expansion/modernization, Business failure, Management inefficiency, Lack of skills/training, inappropriate technology, Political reasons, Poor credit management and monitoring, Recession, Accident and Natural Calamities, Government policies.

Some of the remedial measures in practice:

Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002, Bank Board Bureau (BBB), Capitalization Programme, Government Reforms, Empowerment, Asset Reconstruction Companies, Insolvency and Bankruptcy Code 2015, Debt Recovery Tribunals, Corporate Debt Restructuring, Lok Adalat.

Earlier studies:

Tulika Hora, K Raaga, Asra Khan. Dec 2017 Christ University, Bengaluru, Emperor International Journal of Finance and Management Research, ISSN:2395 5929, Objective of this study was to to analyze the various key aspects affecting the financial performance and employees of the State Bank of India. They found that, As per the survey conducted, the merger not benefitted the employees. Negative trend of few subsidiaries before merger affecting SBI after merger.

Sahota S, Dhiman B, May 2017 Volume 11, Issue 5, 1 May 2017, Pages 40-57, Indian Journal of Finance) in their study opined that, there is a touch competition between public and private banks in India. Surprisingly, it was noticed that, there was not much of variation in these banks in terms of ratios and sub-parameters namely, debt/equity ratio, gross non-performing assets/total assets, income interest/total assets, and liquid assets to total deposits. They found that, banks performed satisfactorily after the reforms, SBI being the top performer. They insisted that, to seen the sustainability of the financial system, it is very important to analyse the performances of the banks frequently to know their strengths and vulnerabilities.

Sulagna Das, Abhijit Dutta, Nov 2014 (IOSR journal of business management, ISSN 2319 7668), as per the study, at 5% significance level, it is observed that there is no major difference in NPAs among these banks.

Dr Jeelan Basha V, March 2017, Indian Journal of Research, ISSN 2250-1991, Objective of this study is to study the status of non-performing asset using financial ratios in SBI group. and suggest and conclude based on findings. They found by using standard deviation and coefficient of variation that, the money locked up in NPAs has a direct impact on profitability of the banks. Bank should ensure that the NPAs should not be further slipped and written off .It has to strategically plan for proper appraisal of credit application.

R.S.Raghavan, National Institute of Bank Management, Vol.37, Issue 4- 47-56, Objective of this study was to highlight the salient features and explores the impact of consolidation. They found that, Banks consolidation may have significant impact on the Indian banking industry.

Research Methodology:-

This study is descriptive and exploratory in nature Data used in the present study is Secondary data which is collected from RBI website, SBI annual statements, Journals and Magazines. Data is collected for the Variables namely Net Profit Margin, Return on Equity and Return on Assets, Gross NPAs to Gross Advances, Net NPAs to Net Advances, Cost to Income and Provision Coverage Ratio. Secondary data is collected for a period of 5 years i: e from 2014-15 financial year to 2018-2019 Financial Year. Statistical tool of percentage analysis is used to identify the reasons for increase in NPA's of State Bank of India.

Objectives of the study:-

1. To analyse the performance of State bank of India during last five years in terms of Net Profit Margin, Return on Equity and Return on Assets, Gross NPAs to Gross Advances, Net NPAs to Net Advances, Cost to Income and Provision Coverage Ratio.
2. To analyse the gross NPA's of State Bank of India Sector wise.
3. To Provide Suggestions based on the study.

Analysis And Interpretation:

Table 1:- The following key data information is used/ calculated for the analysis and interpretation.

Particulars	2018-19	2017-18	2016-17	2015-16	2014-15
Net Interest Margin (times)	2.16	2.28	2.51	2.68	2.74
Return on Assets %	-0.18	0.38	0.44	0.63	0.6
Gross NPAs to Gross Advances	9.83% (up to 30.9.2018)	10.85%	9.04%	6.40%	NA
Net NPAs to Net Advances	4.76% (up to 30.9.2018)	5.69%	5.15%	3.73%	2.12%
Cost to Income %	47.52	41.15	39.14	36.85	36.76
Provision Coverage Ration %	66.17	61.53%	65.95%	60.70%	69.13%
Return on Equity	-3.37	6.69	6.89	10.2	9.2
Net Profit Margin %	-2.96	5.97	6.07	8.59	7.98

Source: www.sbi.co.in, Dion Global Solutions Limited.

Though various measures had already been taken by RBI earlier, NPAs among public sector banks in general are increasing consistently, and SBI in particular. Some of the measures are mentioned in the literature review section of this paper. Under Bank Board Bureau (BBB), the government had introduced 7point Indradhanush program to facilitate continuous monitoring of the performance of the banks. As part of measures, RBI had introduced Insolvency and Bankruptcy code 2015.

As per the statement of the SBI Chairman, some changes occurred in the method of recognizing corporate stressed assets after the notification of RBI in February 2018. As per the above data, provision coverage ratio has increased in 2018 as per RBI guidelines, to take care of the bad assets and there by decrease in net profits. Most of the provisioning is usually done out of profits.

Another important reason for the increase in NPAs is the procedures at National Company Law Tribunal (NCLT), to whom SBI approached after the RBI directives under the Banking Regulation Act 1949. In March 2018, the Bank has Rs. 77,626 crore of funds held up in accounts listed with NCLT for resolution. The PCR-Provision Coverage

Ratio for these accounts is 63%, which SBI believes is adequate for resolution of these accounts. The bank is expecting most of the resolutions in FY 2019. If the resolutions passed as per the expected time, the country major public bank can see some improvement.

Due to the above reasons, cost to income %, is showing increasing and Net Interest Margin and Return on Assets decreasing.

Asset Quality Review (AQR) by RBI during 2015-16 to clean up the balance sheets of commercial banks. This is one of the most significant reason for the increase in NPAs in SBI too¹⁴. AQR exercise is besides the regular Annual Financial Inspection (AFI), where a small sample of loans will be verified to see whether asset classification is in line with loan repayment and whether provisioning is done adequately.

AQR takes relatively bigger sample size and large borrower accounts, and it was found that around 200 accounts are to be classified as NPAs. Banks were give 2 quarters time to work on it. This resulted in few recoveries and up gradations¹⁴.

As per the data released by www.sbi.co.in, NPAs in the segment of Mid and Large corporates increased over a period of time since 2015, while it has decreased in Agriculture, Retail and Small and Medium Enterprises.

Discussions, Findings, Suggestions & Recommendations:-

The extent of enforcement of the remedial measures taken so far is the key for the improvement. There is an immense need to developed skills in the area of monitoring, credit appraisal and recovery to make ensure the smooth functioning of loan portfolio. The complete information about the business units/industry and governance should be assessed. Centralization of banking operations may help to have better control. Using the big data analytics will improve the operational efficiency by conducting predictive analytics, risk analytics and customer segmentation. It should be done religiously without the interference of the government. There is an opinion among few, that the piling up of NPAs in SBI is not a recent phenomenon, but it has been growing since 2008 after the global financial crisis. Now that, the enactment of laws, RBI regulations have become stringent, and transparency has become the buzz word, we are witnessing the ever increasing NPAs.

Banks need to identify the root cause and rectify it from the gross root levels, rather than looking for help from the central banks/government. Governance at the bank's level need to reengineer with the appropriate orientation to the key officials on the importance of controlling the defaults as it may affect the economy and the citizens of the country will be the sufferers. It may also create a negative image in the world banking industry. The recent merger aims at placing SBI among the top banks in the world. Considering this fact, the public sector major should take all necessary steps and implement the same in time is the key for success.

SBI being the largest bank in the country and among the top 50 banks in the world (after the recent merger), should be able to focus on integration of banking products and services and other segments of financial system.

Conclusion:-

The present study analysed the key ratios for the past 5 years, and compiled the sector wise NPAs and identified that, major contribution for the increase of NPAs is mid-size companies and SMEs. As we can see the various measures, being taken by the government and RBI, there are considerable amount of hurdles in implementing the policies/amendments taken primarily because of the cases pending in NCLT¹³ (as mentioned in the annual reports of SBI. Besides, SBI there are other major banks who are following the same direction of merger to find the economies of scale in operations. Hopefully, the recent trend of mergers among banks would lead to a positive change in Indian Banking Industry.

Conflict of Interest:

Nil

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Self – first author

Ethical clearance:

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